

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF OHIO
EASTERN DIVISION

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DIGITAL MEDIA SOLUTIONS, : Case No. 1:19-cv-00145
LLC, :
 : Cleveland, Ohio
Plaintiff, :
 : Monday, March 11, 2019
v. : 2:27 p.m.
 :
SOUTH UNIVERSITY OF OHIO, :
LLC, ET AL., :
 :
Defendants. :
-----X

TRANSCRIPT OF SHOW CAUSE HEARING PROCEEDINGS

BEFORE THE HONORABLE DAN AARON POLSTER

UNITED STATES DISTRICT JUDGE

And

BEFORE THE HONORABLE THOMAS M. PARKER

UNITED STATES MAGISTRATE JUDGE

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1 AFTERNOON SESSION, MONDAY, MARCH 11, 2019

2 (Proceedings commenced at 2:27 p.m.)

3 - - -

4 DEPUTY CLERK: All rise.

14:27:55 5 THE COURT: All right. Everyone can be
6 seated.

7 All right. This is Case 1:19-cv-145, *Digital Media*
8 *Solutions versus South University of Ohio, et al.*

9 Judge Parker and I set this hearing, a show cause
14:28:19 10 hearing as to whether the receivership should be terminated.
11 There have been a number of motions filed urging that.

12 This receivership was created, I think, January 18th
13 or 19th, on an emergency motion that Digital Media Solutions
14 filed.

14:28:44 15 I was actually serving as a visiting Judge in Las
16 Cruces, New Mexico, at the time. I had to deal with this in
17 between sentencing hearings with the help of Judge Boyko.
18 It was represented to me that if I did not act very quickly,
19 thousands of students would be deprived of their education,
14:29:13 20 with the results either the students would lose millions of
21 dollars, and/or the federal government would lose millions
22 of dollars in unsecured loans; that bankruptcy was not a
23 viable option because then, everything would collapse and
24 the students would be out and the money would be gone.

14:29:34 25 And that this was the only mechanism to provide what

1 was described to me as a teach-out, which is providing for
2 an orderly concluding of classes for the balance of the
3 semester. And I was convinced that that was the best thing
4 to do, and so I authorized the receivership.

14:29:59 5 Now, there were a lot of things that weren't disclosed
6 to us. Looking back, there were a lot of questions I should
7 have asked, but I can't do anything about the past. I can
8 only focus on the present and what to do going forward.

9 So, obviously, we've got more people here than in my
14:30:26 10 opioid MDL. I didn't think that was possible for one case.
11 So a whole lot of people are here.

12 I've asked representatives from the Department of
13 Education to be here because I had some questions. They're
14 here. I asked some officials from Dream Center to be
14:30:49 15 present because I may have some questions. But I want to
16 start out with the receiver.

17 I want to know, are there any schools still open under
18 the receivership?

19 And if so, what are those schools, and what are the
14:31:05 20 plans?

21 MS. WHITMER: All right. So right now, the
22 law school is open --

23 THE COURT: Right. I was aware of that.

24 MS. WHITMER: -- which is an Argosy school.
14:31:16 25 Las Vegas is open; that is an Art Institute school. Those

1 are minor ones.

2 The thing that is of acute -- very important is that
3 DCEH, the receivership entity DCEH, supports all of the
4 computer operations, and all of the, as it is called,
14:31:48 5 noncore functions of South University, which has 10,000
6 students, and Arts Institute, which has about 5,000
7 students.

8 So they -- if something happens to DCEH, the 15,000
9 students that are in South University, 10,000, and Art
14:32:15 10 Institute, 5,000, will not be educated.

11 THE COURT: All right. And South University
12 and Arts Institute, they're not in the receivership,
13 correct?

14 MS. WHITMER: That is correct.

14:32:31 15 MAGISTRATE JUDGE PARKER: Which specific South
16 University campuses are open?

17 MS. WHITMER: There are two teach-out campuses
18 that are in the receivership. South of Ohio --

19 THE COURT: Well, wait a minute. I thought --
14:32:53 20 that was my first question, Ms. Whitmer, that -- what
21 schools in receivership are still open. And you said the
22 law school, Argosy law school that's in California, and then
23 Las Vegas Art Institute.

24 And now you're saying some South University schools in
14:33:11 25 teach-out. That means they must -- if they're in teach-out,

1 they're in receivership, right?

2 MS. WHITMER: That is correct, Your Honor.

3 I'm sorry.

4 THE COURT: All right. Let's go back.

14:33:23 5 What schools in receivership are still open?

6 We got the law school in California, we've got an Art
7 Institute in Las Vegas, and there are two South University
8 schools?

9 MS. WHITMER: South University, Novi,
14:33:39 10 Michigan.

11 THE COURT: Novi, Michigan. Okay.

12 MS. WHITMER: And South University of Ohio in
13 Cleveland.

14 THE COURT: Okay. Let's stay with those four,
14:33:53 15 because, again, I -- the purpose of the receivership was to
16 enable a teach-out, right?

17 For most of the schools in the receivership, that's no
18 longer possible. They're closed. So we got four.

19 Now, let's start with these two South University
14:34:16 20 schools.

21 They're in teach-out.

22 MS. WHITMER: They are in teach-out.

23 THE COURT: And specifically, what's
24 happening?

14:34:21 25 MS. WHITMER: The students are, I believe,

1 nursing students, and South University is paying for those
2 teach-outs. So they are doing programming under South
3 University, and completing the educational programs of those
4 students.

14:34:46 5 THE COURT: And where is South -- I mean,
6 what's the cost here?

7 MS. WHITMER: I'm sorry, Your Honor. I
8 don't --

9 THE COURT: What's the cost?

14:34:54 10 MS. WHITMER: I don't know.

11 THE COURT: How much does this cost, and where
12 is the money coming from?

13 MS. WHITMER: It's coming from South
14 University, which is not a receivership entity.

14:35:02 15 THE COURT: Well, I thought -- but the
16 schools --

17 So the money is coming from South University, which is
18 not a receivership entity, into two schools that are in
19 receivership?

14:35:17 20 MS. WHITMER: That is correct.

21 THE COURT: Well, they can continue to do it.

22 So South University is paying, and they're not in
23 receivership. All right.

24 And the plans are to -- the semester ends when?

14:35:34 25 Sometime in May?

1 MS. WHITMER: I do not know.

2 So when you teach-out -- you don't teach-out the
3 semester; you teach-out the program. So what happens is,
4 you take -- so there's a transfer student -- when a school
14:35:55 5 ends, you can transfer the students. And those students
6 transfer the way people used to transfer when we were in
7 school. They had their credits transferred and they became
8 a student of the new university and they graduated from that
9 university.

14:36:11 10 Or when the students are well along in their academic
11 careers, hopefully you arrange for a teach-out so that the
12 student can complete the student's education at the older
13 institution and get a degree from that institution.

14 So even though many of our campuses closed, we are
14:36:34 15 negotiating teach-out agreements for our most vulnerable
16 students, which are the doctoral candidates, the master's
17 candidates.

18 And those two South entities, although, I have not
19 looked at the details of these particular teach-out
14:36:52 20 arrangements, South -- I believe Mr. Pap [sic] from South
21 University is here, and he may be better able to speak to
22 those teach-out plans.

23 THE COURT: All right. What is happening at
24 the Art Institute in Las Vegas?

14:37:13 25 MS. WHITMER: So we are still negotiating a

1 transaction with Las Vegas -- the Las Vegas folks. And
2 Mr. Nemer is here. He is best able to speak to the details
3 of that transaction.

4 THE COURT: Well, since we're on it, who wants
14:37:34 5 to speak to that?

6 MR. NEMER: Your Honor, Charles Nemer.

7 THE COURT: All right.

8 MR. NEMER: Your Honor, I've had a number of
9 conversations with the purchasers, as well as counsel for
14:37:46 10 the purchaser. They are ready to enter into a memorandum of
11 understanding along with a manage service agreement along
12 with the transition service agreement, which will allow --
13 the entity that would take it over is called Save the Arts
14 Institute of Las Vegas, Limited. It is a Nevada limited
14:38:08 15 liability company.

16 My understanding is that they're trying to work out an
17 agreement with the landlord so that they can remain at that
18 location at the present time. But they are ready to pay all
19 the expenses moving forward with regards to that campus,
14:38:30 20 Your Honor.

21 MR. DOTTORE: Can I add to that, Your Honor?

22 THE COURT: All right.

23 MR. DOTTORE: Mark Dottore, the receiver.

24 The State of Nevada is also in partnership with these
14:38:44 25 same folks, as is the City of Las Vegas. They have a plan

1 that I've seen to build another facility and use the
2 facility that they already have, if they can make a deal
3 with the landlord.

4 To prevent recidivism out of the prison system they
14:38:58 5 have there, to train people for the casinos and jobs that
6 aren't minimum wage, they're up -- working wages. And also
7 to train the folks that belong to the restaurant workers
8 unions and that, to train there so that they can go on to
9 greater employment. I think it's a great idea. That's --

14:39:15 10 THE COURT: Who is the landlord, and is the
11 landlord getting paid?

12 MR. DOTTORE: Right now, the landlord is not
13 getting paid. But from what I understand, the Save
14 Las Vegas folks offered to pay the landlord, even the back
14:39:28 15 rent over a period of -- the back rent over a slow period of
16 time, and the go-forward rent going forward from now.

17 THE COURT: Well, part of the problem -- let
18 me just say, part of the problem is that it's come to our
19 attention that during the term of this receivership, schools
14:39:49 20 have been continuing to operate, and the landlords haven't
21 been getting paid. All right? I don't think that's fair or
22 appropriate. It's got to stop.

23 So, I mean, one way or another, we got to either close
24 this place, someone has got to buy it, or if it's operating,
14:40:08 25 the landlord needs to get paid.

1 MR. DOTTORE: It has, Your Honor. Not to
2 interrupt you. I'm sorry.

3 It has. We have started to -- we have several
4 agreements with the landlords in this room to turn their
14:40:18 5 property back to them, take the assets out that we can
6 liquidate and use to pay other bills of the landlord, or
7 other creditors from the landlord. And we've entered into
8 most of those agreements over the weekend.

9 THE COURT: Well, I mean, the point is, the
14:40:31 10 other building -- there are no schools. So the schools are
11 closed. The landlords can do whatever they want with their
12 buildings.

13 MR. DOTTORE: Correct.

14 THE COURT: But here is one where the school
14:40:43 15 is operating. So -- all right.

16 Did someone want to speak to this Las Vegas school?

17 MR. MORSE: Yes, Your Honor.

18 This is Joshua Morse from DLA Piper U.S. on behalf of
19 Tech Park 6, LLC. We're one of the intervening landlords,
14:40:59 20 and the landlord for the Las Vegas Art Institute property.

21 I really appreciate you allowing me to appear by
22 telephone. I know that's not your ordinary course.

23 THE COURT: All right.

24 MR. MORSE: We've done a number of things.
14:41:15 25 We've sought to intervene, and then also teed up a motion to

1 have the receiver expedite the decision about, you know,
2 assuming or assigning or rejecting our property, and then
3 also paying rent in the meantime.

4 We also joined in the -- filed a limited joinder with
14:41:37 5 respect to today's motion.

6 The reason that I'm appearing -- and even the receiver
7 just a moment ago, continued its false information, and has
8 presented this Court with false information.

9 On Sunday morning, I woke up to the receiver's -- a
14:41:53 10 new response, which was filed at Docket 134, which was
11 supported by a declaration filed by Mr. William Turbay, who,
12 apparently, is the principal of this Save the Arts Institute
13 of Las Vegas entity.

14 We were surprised to see an additional response since
14:42:14 15 the receiver had already opposed our joinder. But then as
16 we read what was in the document, we were shocked to read
17 that the receiver was seeking to have our joinder
18 disregarded based on the materially false -- a materially
19 false and misleading declaration. The falsities are in two
14:42:34 20 respects, which are outlined in our -- in our response filed
21 this morning.

22 Number one, no offer was ever conveyed to actually
23 assume the lease.

24 And number two, Mr. Turbay absolutely did not propose
14:42:48 25 to cure any arrearages over 24 months, as was stated in his

1 declaration.

2 THE COURT: Well, it's -- all right. What's
3 happened in the past, I can't do anything about. But --

4 MR. MORSE: Oh, I understand, Your Honor.

14:43:03 5 THE COURT: -- we're not going to have any
6 school operating without the landlord getting paid. All
7 right? That's going to end. It shouldn't have been going
8 on. It's going to end now.

9 So we got to decide what's going to happen with this
14:43:15 10 Art Institute. If it's going to stay open, then the
11 landlord gets paid going forward. If it's going to close,
12 it will close now. If someone else is going to take it
13 over, they're going to take it over now. So I don't care.

14 MR. MORSE: Yeah. I understand completely,
14:43:32 15 Your Honor.

16 For, you know, whatever reason, this response that the
17 receiver filed, you know, purported to just convey
18 materially false information. And I appear to correct the
19 record.

14:43:46 20 The issue is that this entity that is purporting to
21 potentially take over the location has no financial history,
22 has no, you know, financial wherewithal, has no access to
23 capital, has no ability to provide a security deposit, has
24 no ability to provide a guarantee. Which led my client to
14:44:13 25 not be interested in extending -- or assuming the lease

1 through January of 2025, particularly when it was going to
2 be stiffed for nearly four months of rent, not including all
3 the fees associated with appearing and taking up issues
4 with, you know -- before this Court.

14:44:35 5 THE COURT: All right. Look, I've heard -- I
6 mean, I had grave reservations two months ago about this
7 Court taking over this case, appointing a receiver. Again,
8 the past is history. I'm dealing with the present.

9 And I should say that Judge Parker has spent an
14:44:57 10 inordinate amount of time overseeing this, because I,
11 obviously, didn't have the time to do it. So I have
12 referred it to him, and he and his staff have done
13 incredible work. But this is going to come to an end. I
14 don't think it's a good use of our Court's resources.

14:45:17 15 So, all right. Within a very short time, Las Vegas is
16 either going to be closed -- if it's going to be kept open,
17 the landlord has got to be paid. If the school is going to
18 operated, then the landlord has got to be paid, or someone
19 else is going to buy it.

14:45:35 20 Now, Mr. Dottore, when do you want to bring this to a
21 conclusion, one way or the other? Shut it down, pay the
22 landlord, and keep running it, or transfer it to someone
23 else.

24 MR. NEMER: Your Honor, Charles Nemer.

14:45:50 25 Just to respond to some of the allegations made by

1 Mr. Morse, and I take --

2 THE COURT: Who do you represent?

3 MR. DOTTORE: I represent DCH and the
4 receiver. I'm Charles Nemer from McCarthy, Lebit, Your
14:46:02 5 Honor.

6 THE COURT: Well, is someone here for this new
7 entity? All right? This has to be concluded, and I want to
8 know what period of time do you want to either sell this,
9 transfer this to another entity that's going to start paying
14:46:15 10 the bills, close it down, or you're proposing to keep
11 Las Vegas Art Institute open under some terms, which have to
12 include paying the landlord.

13 Mr. Dottore, what -- you tell me what you want.
14 What's a reasonable time?

14:46:41 15 MR. DOTTORE: 15 days, Your Honor.

16 THE COURT: Well, I'll consider that when I
17 see what else is involved.

18 MR. MORSE: Your Honor, this is Joshua Morse,
19 again.

14:46:52 20 Just to be clear, will the -- if we -- if the
21 receiver's request to continue in possession for the
22 premises for 15 days were granted, would that be premised on
23 the payment of the rent that has been accrued and unpaid
24 since the beginning of the receivership, or just from today
14:47:11 25 forward, through the expiration of those 15 days on a

1 pro --

2 THE COURT: It would be today forward,
3 because, quite frankly, I don't know what money the receiver
4 has and whose money it is.

14:47:28 5 Judge Parker asked some poignant questions last
6 Friday. I had a little bit of time. I was sitting in the
7 audience, and I didn't think Judge Parker got answers to his
8 questions. I'll just leave it at that.

9 MR. MORSE: Just so the Court is aware, the
14:47:43 10 per diem amount of the rent is approximately \$3,500. And
11 that's detailed in our initial motion, which appears at
12 Docket Number 59.

13 THE COURT: All right. Well, if I decide I'll
14 let the school stay open, the receiver will pay the \$3,500 a
14:48:03 15 day rent.

16 MR. MORSE: Thank you so much, Your Honor.

17 THE COURT: That's an "if."

18 So it's my understanding that South University is
19 paying all the operating bills, including the rent, of Novi,
14:48:21 20 Michigan, and Cleveland.

21 MS. WHITMER: We understand they're paying for
22 the teach-outs. As I understand the rent in Cleveland,
23 there is an agreement -- they are working with the -- with
24 the landlord to complete an agreement to return the
14:48:38 25 building. I don't know --

1 THE COURT: How can they return the building
2 if they're teaching the students?

3 MR. DOTTORE: Your Honor, I'm diligently
4 working with Tri-C University to take the students -- to
14:48:50 5 take some classroom space so that South University can teach
6 the students out at Tri-C.

7 One of the deals that I'm trying to make with Tri-C
8 is, there's a bunch of nursing equipment that I would donate
9 to Tri-C for the classroom space.

14:49:08 10 THE COURT: Well, all that is fine,
11 Mr. Dottore. But if students are in some building, you've
12 got to be paying rent to that landlord.

13 MR. DOTTORE: They're not going to be in the
14 building. I made an arrangement with the landlord the other
14:49:22 15 day to be out of building.

16 THE COURT: All right. What about Novi,
17 Michigan? Are students in the building?

18 MR. ROESSLER: Your Honor, may I approach,
19 please.

14:49:30 20 THE COURT: Yes.

21 MR. ROESSLER: Hi, Your Honor.

22 Kirk Roessler from Walter Haverfield. I represent
23 Hemingway at Richmond, LLC. It is the landlord of the South
24 University campus in Cleveland, which I will refer to as
14:49:45 25 South University Cleveland to avoid any ambiguities with

1 respect to the other South University.

2 I just want to make it known to the Court that we have
3 not been paid any rent since the enactment of the
4 receivership.

14:49:58 5 We have had some discussions with the receiver and his
6 counsel over the past couple of days about a termination of
7 the lease and a surrender of the premises, and I think that
8 we are close to having that resolved. But as of yet,
9 nothing has been --

14:50:18 10 THE COURT: Well, I'm going to conclude this
11 now. I mean, you're going to -- the rent is going to be
12 paid, if the school is using the building. If the school is
13 not using the building, then they're out, and you can get
14 your property back, sir. That's what I'm endeavoring to do.

14:50:32 15 Mr. Dottore said they're out. All right?

16 MR. DOTTORE: That's exactly what I said,
17 Your Honor.

18 THE COURT: So there aren't any students. You
19 can do what you want with your premises. You can rent it to
14:50:43 20 someone else, sir.

21 MR. ROESSLER: Thank you, Your Honor.

22 THE COURT: All right.

23 All right. And, again, what are we doing with the
24 premises in Michigan?

14:50:59 25 I mean, you got to either get -- if the student are

1 out, they're out, and you tell the landlord they got the
2 property. If the students are in there, the landlord has to
3 get paid.

4 MR. DOTTORE: The same thing, Your Honor. I'm
14:51:11 5 giving the property back to the landlord and finding another
6 space to put the students.

7 THE COURT: All right.

8 MAGISTRATE JUDGE PARKER: Who is the landlord
9 entity from Michigan?

14:51:21 10 MR. DOTTORE: One second, Your Honor.

11 MS. WHITMER: Who is it?

12 MR. DOTTORE: HEFCO.

13 MS. WHITMER: HEFCO?

14 MR. DOTTORE: HEFCO.

14:51:36 15 MAGISTRATE JUDGE PARKER: H-E-F-C-O?

16 THE COURT: All right. Well, tell them
17 they've --

18 MS. WHITMER: HEFCO, H-E-F-C-O, South
19 University, Novi campus. 41555 12 Mile Road.

14:51:51 20 THE COURT: All right. Well, tell them
21 they've got their property back. They can do whatever they
22 want with it.

23 MS. WHITMER: Your Honor, the agreements that
24 we've been making with landlords have asked them to give us
14:52:02 25 30 days to remove any property or any student records,

1 identifiable information from the premises.

2 THE COURT: Well, that's up to them. All
3 right? You haven't been paying rent. So they may or may
4 not -- I suggest if you got student records, you better get
14:52:19 5 those out. Anything else, I don't know. But you're
6 responsible for those records.

7 All right. That leaves the law school.

8 What's the status about the -- with the law school?

9 MS. WHITMER: I believe the law school was
14:52:32 10 talking to the landlord there. We're trying to get two
11 weeks to get the semester far enough along so that the 3L
12 students and the other students can get credit for this
13 semester. I, frankly, have lost track of where those
14 discussions are.

14:52:57 15 THE COURT: Well --

16 MR. GLICKMAN: Judge -- sorry -- Rob Glickman.

17 THE COURT: Yes.

18 MR. GLICKMAN: One of the representatives of
19 the secured lenders are here. And in communications with
14:53:09 20 him over the last couple of days, it's my understanding that
21 he's actually extending -- he's actually extending
22 additional funds to allow for the students at the law school
23 to complete this term, which would allow the 3Ls to
24 graduate.

14:53:25 25 Also --

1 THE COURT: Well, is someone here who can
2 confirm that?

3 MR. NEWTON: Your Honor, James Newton of
4 Morrison & Foerster on behalf of Flagler, one of the lenders
14:53:43 5 of DCEH.

6 THE COURT: Which lender?

7 MR. NEWTON: Flagler Master Fund, an
8 intervening party.

9 THE COURT: All right.

14:53:51 10 MR. NEWTON: Your Honor, we have been in
11 discussions with the receiver about paying the payroll to
12 keep the law school open.

13 We were under the impression that the school was in
14 discussions with the landlord to deal with that portion of
14:54:04 15 it.

16 THE COURT: Well, I'm just going to make sure
17 they get paid.

18 All right. Look, so it looks like the law school is
19 going to stay open until -- through the semester?

14:54:26 20 MR. GLICKMAN: Yes, Judge. However, there's a
21 settlement agreement pending before the Court that extends
22 to another party to the case, Studio, through either itself
23 or through its designee to acquire the law school.

24 At our last hearing, I asked Studio if it was still
14:54:46 25 interested. They are here; so they can answer for

1 themselves. They said they were.

2 And there's also a potential suitor that the receiver
3 was speaking with as well to keep the law school ongoing
4 into the future.

14:54:59 5 THE COURT: I was going to ask about Studio.

6 I --

7 Yes, sir.

8 I need to know what's happening with this law school.

9 And I want to make sure if they're staying in a premises,
14:55:14 10 that the landlord is paid, and that there are funds to pay
11 the teachers. So . . .

12 MR. NEWTON: I can only speak -- on behalf of
13 the lender, I can only speak to the payroll that we've been
14 discussing --

14:55:29 15 THE COURT: Okay. So the secured creditor is
16 covering payroll for the semester?

17 MR. NEWTON: For two payroll cycles,
18 Your Honor.

19 THE COURT: Well, what is -- how long is a
14:55:39 20 payroll cycle?

21 MR. NEWTON: Two weeks.

22 THE COURT: So that would be four weeks?

23 MR. DOTTORE: The law school, the 3Ls will be
24 complete by the end of that payroll -- those two payrolls.

14:55:54 25 MS. AWED: Your Honor, may I approach.

1 THE COURT: Well, what about the 1Ls and 2Ls?
2 I mean -- I mean, what about them? I mean, you have 3Ls
3 who'll graduate, but you're going to drop the people in the
4 middle with a month left in the term?

14:56:10 5 MR. DOTTORE: Everyone finishes their term.
6 Everyone will be -- so when they move to another law school,
7 if this other deal doesn't get consummated, they will be
8 right where they were.

9 MR. GLICKMAN: In other words, Judge, not
14:56:27 10 "right where they were." They will have completed their
11 term. So they'll have credit --

12 THE COURT: All right.

13 MR. GLICKMAN: They'll receive credit.

14 THE COURT: They will finish their term. They
14:56:32 15 will finish their term.

16 MR. GLICKMAN: Yes.

17 THE COURT: All right. That's what I wanted
18 to know.

19 All right. Well, the landlord needs to be covered for
14:56:41 20 this month, too. So I'll direct the receiver to pay the
21 landlord.

22 Who's the landlord?

23 MS. WHITMER: The landlord is the last line on
24 our schedule, and it is CSU Fullerton.

14:56:59 25 THE COURT: All right. Well, if the school is

1 going to stay open for four more weeks, you got to pay them
2 for four weeks.

3 MS. AWED: May I be heard, Your Honor?

4 THE COURT: Yes.

14:57:18 5 You can identify yourself, please.

6 MS. AWED: My name is Maria Awed. I'm the pro
7 se student intervenor from Western State College of Law.

8 THE COURT: Yes, ma'am.

9 MS. AWED: So Mr. Dottore stated that -- I met
14:57:36 10 with him on Saturday, and we discussed the law school. And
11 during the meeting, he said that Michael Lau of Candlewood
12 Investing Group was going to be funding the payroll
13 expenses. We heard today that someone else is funding the
14 expenses.

14:57:51 15 Further, his statement about the 3Ls being able to
16 graduate if we were open for four weeks longer is not true,
17 because it depends on how many units you have. For example,
18 myself, I need 14 units this semester, and I'm enrolled in
19 16. If we close early, I will not have enough units to
14:58:10 20 graduate. It doesn't apply to everyone across the board.

21 MR. GLICKMAN: Judge, from --

22 THE COURT: No.

23 MR. GLICKMAN: I apologize.

24 MS. AWED: And Mr. Dottore also said that our
14:58:19 25 school is in discussions with the landlord, but that's also

1 not true. My dean said that Mr. Dottore is the one who
2 would know any information about the landlords. And he also
3 said during --

4 THE COURT: I've ordered -- Mr. Dottore will
14:58:31 5 take care of the landlord. I've ordered that.

6 MR. DOTTORE: Your Honor, the information I
7 got about them finishing came strict right from the dean.

8 THE COURT: Well, that's --

9 MR. DOTTORE: And he's had a conversation with
14:58:40 10 the student and told her that.

11 THE COURT: All right. Well, the --

12 MR. GLICKMAN: Judge, just to clarify one
13 thing, Mr. Lau is here. He is affiliated with more than one
14 entity. He's in the back of the entity. He's this
14:58:51 15 gentleman's client representative. So it's -- we didn't
16 identify a new lender and a new party. We didn't realize
17 what funds --

18 THE COURT: I've been satisfied that the
19 payroll will be covered for four weeks, and the landlord is
14:59:05 20 going to be paid.

21 Now, ma'am, you know, I don't -- I mean, the dean has
22 represented that this is sufficient time for everyone to get
23 credits to graduate. So this is the first I'm -- first I'm
24 hearing of this. So . . .

14:59:20 25 MS. AWED: It's because we would get two

1 thirds of the units we're enrolled in. But everyone has a
2 different amount of units. For some people, staying open
3 for four weeks will allow them to have enough units to
4 graduate. But it doesn't apply to everyone.

14:59:30 5 I need 14 units, and I'm enrolled in 16. If I get two
6 thirds of 16 units, that doesn't get me to the 14 units that
7 I need.

8 THE COURT: I can't -- you're going to have to
9 take that up with your dean, ma'am. I -- he's represented
14:59:54 10 to Mr. Dottore and to the Court that this four weeks will
11 take care of the 3Ls. So tell him to make it work. All
12 right?

13 MS. AWED: Okay. But we're going to be open
14 for four weeks?

15:00:05 15 THE COURT: Yes, you're open for four weeks.
16 And you tell him that he's represented to a federal court
17 that that's sufficient. So he's got to make it work for
18 you.

19 MS. AWED: Okay. Thank you, Your Honor.

15:00:16 20 THE COURT: If he's got a problem, he can
21 contact me.

22 MS. AWED: Thank you.

23 THE COURT: All right. There's this pending
24 settlement with Studio, and there's a hearing next Monday as
15:00:45 25 to, you know -- there are a couple of objections or issues,

1 and I'm holding a hearing on this next Monday.

2 What will Studio be acquiring in that deal?

3 MS. GIBBONS: Hi, Your Honor -- or good
4 afternoon, Your Honor. Colette Gibbons for Studio.

15:01:02 5 THE COURT: Yes, Ms. Gibbons.

6 MS. GIBBONS: Your Honor, this is a settlement
7 between the receiver and Studio that reaffirms agreements
8 that were entered into in December that provided for Studio
9 to provide the backroom, noncore services to these
10 universities.

11 Studio is the owner of eight Art Institute -- or is
12 the service provider for eight Art Institute schools.
13 Studio is here today, Mr. Altorelli, to answer any questions
14 that the Court has. But we are committed to keeping those
15 universities open. And we need the cooperation of the
16 receiver and the use of the intellectual property that the
17 receiver is the owner of or has custody of in order to make
18 that happen.

19 Your Honor, Mr. Altorelli.

15:01:52 20 THE COURT: Yes.

21 MR. ALTORELLI: Thank you.

22 First, do you have any questions before I address, you
23 know, some of the issues that we can help with? All we
24 really have is our role.

15:02:26 25 THE COURT: Sir, what happens -- who is -- are

1 you acquiring the intellectual property platform that
2 Mr. Glickman talked about?

3 MR. GLICKMAN: Judge, I helped negotiate this.
4 If I could explain.

15:02:52 5 THE COURT: All right.

6 MR. GLICKMAN: What's happened was, Studio has
7 a servicing agreement with these schools. It's to provide
8 services. Studio doesn't provide services. It does provide
9 them because it contracts with DCEH to do it.

15:03:07 10 We felt that Studio was in breach of our agreement.

11 To be fair, they felt that we were in breach of our
12 agreement. And we negotiated a settlement that allows for
13 DCEH to be founded so it can continue to service the Art
14 Institute entities and the South entities, pursuant to the
15 terms of the contract with Studio.

15:03:26 16 However, it is the plan that this will only go on for
17 a finite period of time, and Studio will create -- excuse
18 me -- Art Institutes will create its own intellectual
19 property platform, and South will create its own
15:03:44 20 intellectual property platform.

21 But right now, all of that is run out of the DCH
22 facility, and it is hopelessly intertwined.

23 THE COURT: All right. But we can't keep -- I
24 mean, my inclination is to end this today. But it looks
15:03:59 25 like we got to extend it for some short period. But it's

1 got to be short.

2 So when is this going to be done? When are you going
3 to -- whatever, create your own IP and take this over.

4 MR. GLICKMAN: Well, one of the provisions of
15:04:13 5 the settlement agreement, actually, if the receivership
6 cannot provide the services, allows Studio to purchase the
7 DCEH intellectual property and facilities subject to its
8 lenders' claims. And so if the receiver were to stop,
9 Studio has that option. It is not a requirement in the
15:04:35 10 document, but it is an option.

11 And, frankly, if the electricity goes out in
12 Pittsburgh, both of these university systems fail. And
13 just -- they no longer have contact.

14 THE COURT: I don't want that to happen. All
15:04:51 15 right? But I can't make people do anything. All right? So
16 it seems to me that the principal -- the principal remaining
17 asset is this . . .

18 MR. GLICKMAN: Very large building with lots
19 of computers in it.

15:05:11 20 THE COURT: Right. That's it. All right?
21 So --

22 MS. WHITMER: We call it the "computer
23 platform."

24 THE COURT: All right. The computer platform
15:05:19 25 needs to be provided, or else a whole lot of institutions

1 that aren't in receivership will collapse immediately --

2 MS. WHITMER: Yes.

3 THE COURT: -- with devastating impact on the
4 students, and probably a lot of taxpayer money.

15:05:33 5 MS. WHITMER: Yes.

6 THE COURT: All right? I don't want that to
7 happen. But I want to set up a mechanism today for a quick
8 transfer of that, or creation by some other entity to do it,
9 because DCEH isn't long for operations.

15:05:47 10 MR. GLICKMAN: It's the only other
11 asset -- the only other significant asset to the estate is
12 potential litigation, claims that DCEH may have against --

13 THE COURT: Well, the bankruptcy court is
14 going to supervise that. I'm not. Okay? This entity is
15:06:01 15 going to go into bankruptcy soon. We all know that. But I
16 don't want this -- that all these students in
17 non-receivership schools be a casualty. So I want to
18 determine today how are we going to have an orderly
19 transition.

15:06:22 20 So what are we doing with this platform? Does Studio
21 want to buy it now?

22 MS. WHITMER: Your Honor, could I make a
23 suggestion?

24 THE COURT: Yes, Ms. Whitmer.

15:06:35 25 MS. WHITMER: Our receivership really has been

1 so busy, and we can't give the Court immediate answers for
2 some of these questions.

3 Could you give us a period of time, a few days, to sit
4 down with AI and with South and determine how long they need
15:06:57 5 to build their own platforms, or transition us out of the
6 DCEH platform dilemma? And if we could bring to you, based
7 upon IT -- you know, based upon a responsible, professional
8 accounting of how long it will take to transition the -- and
9 bring you a plan of how we're going to get out of the
15:07:25 10 entanglement of South and AI?

11 MR. ALTORELLI: Your Honor, may I add
12 something to that? Because we've actually worked on this
13 for 11 months.

14 THE COURT: All right. Again, the Court
15:07:40 15 wasn't apprised of all of this, you know, pending agreement
16 or anything with Studio when this receivership was created.
17 We, Judge Parker and I, only learned about this well after
18 the fact.

19 MR. ALTORELLI: I know. And it's very
15:07:55 20 unfortunate. And I'm not going to brother recriminating
21 over who did what or however.

22 There's two schools that are still alive. And if you
23 want to save them, someone should probably talk to the
24 people who spent 11 months figuring it out. A lot of people
15:08:08 25 think they know, and they don't.

1 THE COURT: These are these -- this is the
2 South University in Cleveland and South University --

3 MR. ALTORELLI: No. This is South University,
4 the entire South University, and the Arts Institutes.
15:08:18 5 They're not in receivership.

6 THE COURT: All right. Well, I'm trying to
7 save those.

8 MR. ALTORELLI: I know you are, and we are
9 too. We've been trying for 11 months.

15:08:25 10 We know what it will take to get these schools on
11 their own. We put a detailed plan that we spent millions of
12 dollars to do with numerous professionals who actually know
13 how to do this stuff. And that plan lasted 11 days before
14 we ended up in receivership.

15:08:44 15 Until that plan ended up in receivership, all three
16 schools managed to get on their own payroll -- not on their
17 own pay -- on their bank accounts, and get Title IV funding.
18 If that had not happened, they all would be closed now, not
19 just Argosy.

15:09:02 20 The plan for the IT -- which is all that really
21 remains now. We can stop worrying about the rest -- it's
22 going to take four to six months to unwind. There's 3,000
23 contracts. There's a couple hundred people. There's a huge
24 data center in Pittsburgh, 550 some odd servers. You know,
15:09:18 25 it's not an easy lift.

1 Everyone in the world will tell you something; they
2 have no idea. They didn't do the work. We have.

3 And we're happy to have any other third-party
4 consultant come in, because we've hired a bunch, and tell
15:09:33 5 you different, but they won't.

6 So at the end of the day, that's what it's going to
7 take. We're prepared to do it. We have signed up to do it.
8 We spent millions of dollars preparing to do it. And we
9 would love the opportunity to finish that plan, because
15:09:46 10 those two plans won't survive without it. So we're here to
11 do that.

12 THE COURT: Are those schools paying their
13 bills and paying their landlords?

14 MR. ALTORELLI: They absolutely are. As a
15:09:59 15 matter of fact, that's the only money that comes into this
16 receivership, is from South University and the Art
17 Institutes. Without those two schools --

18 THE COURT: Well, wait a minute. I thought
19 that money -- those schools are not in the receivership?

15:10:08 20 MR. ALTORELLI: No. But they pay north of
21 \$3 million, or somewhere around \$3 million a month to the
22 receiver for the transition services. It's all part of the
23 package. Because they own the IT. They have the people.
24 And until we can move the people at IT out of DCEH into the
15:10:25 25 respective universities or Studio, they -- we have no

1 choice. The arrangement was set up as a subcontractor
2 arrangement because there was no choice. It will take
3 months.

4 We're two months in, and we're behind schedule because
15:10:39 5 we're spending a lot of time fighting it and telling whose
6 got a better plan.

7 We do need to rejigger the plan now, because we have
8 one school that was supposed to be paying its fair share no
9 longer able to pay. That's a big hole --

15:10:55 10 THE COURT: I want to make sure.

11 All the salaries of teachers, the rent to landlord,
12 all the bills are being paid for those schools?

13 MR. ALTORELLI: Yes, they are. Rent,
14 contracts, landlords, all being paid.

15:11:11 15 MAGISTRATE JUDGE PARKER: So from your
16 perspective, you indicated that things were on track to do
17 this separation of functions until the receivership got
18 started.

19 From your perspective, what would be the effect upon
15:11:22 20 your ability to continue that if the receivership were
21 terminated within the very near term?

22 MR. ALTORELLI: It may actually be worse. No
23 one is going to want to hear that.

24 MAGISTRATE JUDGE PARKER: Can you explain
15:11:36 25 that?

1 MR. ALTORELLI: Excuse me?

2 MAGISTRATE JUDGE PARKER: Explain that.

3 MR. ALTORELLI: Well, because a Chapter 11,
4 which no one may be able to fund, will turn into a
15:11:43 5 Chapter 7.

6 MAGISTRATE JUDGE PARKER: Right.

7 MR. ALTORELLI: It will liquidate faster than
8 four months, or they won't be able to pay the bills. We
9 need a counterparty on the other side to service us. We'll
15:11:53 10 pay for it. We need help. I don't have the exact plan.
11 Give me a couple of days or a week and I will give you a
12 strategy. We did it before.

13 Now that the plan was scuttled, I can figure this out.
14 We'll come out with another plan. And it may involve a
15:12:09 15 Chapter 11 at some point, or 7. It probably will.

16 But I would encourage the Court to give us a little
17 bit of time here to work with the parties who matter. And
18 believe me, no one matters more than the students. So I'm
19 telling you, they're at the top of the list.

15:12:22 20 We need to save these schools. And with respect to
21 the law school, we're also willing to take the law school
22 on. We're willing to take on other campuses. We try to
23 save any campus that we can. Some are too late. But there
24 are two great universities that can be saved, and we'd like
15:12:38 25 the shot.

1 If you give us a little time, we'll work with --

2 THE COURT: This law school, from what I've
3 read, is a well-functioning law school. It has a pretty
4 decent California bar passage rate, which is the toughest
15:12:50 5 one in the country, and I would like to see it continue. I
6 mean, we provided for four weeks, but --

7 MR. ALTORELLI: Look, I personally will put
8 the funding together for the law school. That's how I feel
9 about it. So you have a willing party here. We gave the
15:13:07 10 receiver another 30 days to market it, because he asked for
11 it. We're willing to stay in there. But we are ready to
12 take the law school.

13 THE COURT: All right.

14 MR. DOTTORE: Your Honor, part of the problem
15:13:16 15 is that once this agreement was put in place, South
16 University -- this was set up to split these three separate
17 entities, which was a great idea. And I agree with
18 everything Mr. Altorelli just said. It was supposed to be
19 three separate entities.

15:13:30 20 South University is also in conflict with -- they
21 don't want to be owned by or controlled by Studio. That
22 wasn't me. That was just -- that came up during the
23 receivership. So they've got their own issues. So all
24 three of these people, all I've been saying since the get-go
15:13:45 25 is, get a platform, and I will transfer the information.

1 South is not -- was not in a position to fund a
2 platform. These platforms could cost millions of dollars.
3 AI, I know, or Studio, has begun to build a platform to
4 transfer it. All I've asked this whole time was, build the
15:14:04 5 platform, and I'll transfer everything off.

6 When I got here, Your Honor, it was supposed to be
7 just South -- or I'm sorry -- the entities I had, and EDMC.
8 I was looking for someone to transfer --

9 MR. GLICKMAN: DCEH.

15:14:20 10 MR. DOTTORE: DCEH. To transfer.

11 This is three problems old. This is 11 years' worth
12 of debt consumption that everyone left.

13 The day the receivership started, AT&T was going to
14 shut the phones off. There was \$6 million in back payments.

15:14:37 15 Google, 9 million.

16 Other vendors had not been addressed or paid in up to
17 six months.

18 Rents weren't paid. It wasn't like I got there and
19 decided not to pay the rents.

15:14:51 20 Then, I inherited this platform issue, and we've
21 worked that out. The platform cannot be separated -- and I
22 agree with him -- in anything under six months. People have
23 come in and said, Oh, we can get this off in four weeks.
24 The documents can get off in three weeks.

15:15:06 25 Once they have their own platforms, we can get the

1 stuff off the platform, and send them all off as independent
2 entities without a manage service agreement.

3 THE COURT: All right. Well, I --

4 MR. DOTTORE: Again, I didn't ask for all
15:15:22 5 these people to pile onto this. It was one thing that --

6 THE COURT: Well, I understand that,
7 Mr. Dottore. But, candidly, I -- you know, we didn't know
8 any of this. All right? And if I had, I very well would
9 have done things differently. All right? But I can't
15:15:42 10 change what I did. All I can do is decide what to do going
11 forward.

12 And if it -- if it -- you know, so long as all the
13 bills are being paid, then it's not a problem keeping the
14 receivership open. The problem is, all we get is these, you
15:16:03 15 know, motions coming in that, We're not getting paid. We're
16 not getting paid. We're not getting paid.

17 And students coming in that, Our money has been -- you
18 know, our stipends are gone.

19 The Court's has been overwhelmed with that and
15:16:15 20 figuring out what to do. So I'm putting an end to those
21 things.

22 MS. BOHME: Your Honor, may I address the
23 Court?

24 THE COURT: Yes.

15:16:24 25 MS. BOHME: Good afternoon, Your Honors.

1 My name is Ingrid Bohme, representing Dream Center
2 South University, LLC, which is a recent intervenor, and
3 it's the entity that a lot of people today have referred to
4 today as South University.

15:16:39 5 Dream Center South University, LLC, is the South
6 University system, which has a number of different campuses.
7 It is not a receivership entity; it is strictly an
8 intervenor.

9 THE COURT: Well, yeah. But if this entity
15:16:56 10 went into bankruptcy, that would be the end of you.

11 MS. BOHME: Yes, exactly, Your Honor. And
12 that's why I'm here today, to reiterate some of the points
13 that these gentleman and Ms. Whitmer have said earlier,
14 which is that there are 10,000 South University students at
15:17:14 15 this functional institution that require these IT assets and
16 services in order to remain in school.

17 And in addition to that, there's been some talk about
18 the teach-out schools, which South University, my client,
19 has taken on in order to assist those students through their
15:17:34 20 teach-out.

21 They also are reliant on the IT system.

22 There's been some talk about how long this would take
23 in order to transition. And given how intertwined all of
24 these assets are -- and this is phone systems. This is
15:17:52 25 e-mail systems. This is access to Microsoft applications.

1 This is access to student information systems. Online
2 learning platforms. All of these many, many contracts and
3 many different layers of technology that the various
4 institutions had been using for years, now need to be broken
15:18:12 5 out.

6 And it's my understanding, from my client, that this
7 would take a fair amount of time. I've heard four to six
8 months, at a minimum.

9 But South University is currently also engaged in
15:18:25 10 efforts to identify ways to move itself to a new platform.
11 And that is something that South University is diligently
12 working on, and it's going to be able to do that and to pay
13 to make that happen.

14 All we need is for a transitional period to ensure
15:18:44 15 that we have access to the services provided by DCEH at the
16 data center in Pittsburgh, Pennsylvania.

17 And this is necessary in order to make sure that we
18 don't have nine, ten more receivership or bankruptcy
19 entities in the near future. And more than 10,000 students
15:19:05 20 at South University alone. And people have spoken to Art
21 Institutes having -- the viable Art Institute schools having
22 the same issue. And that brings our total above 15,000
23 students.

24 It's a concern of ours, and I'm very glad that it's
15:19:20 25 being addressed here today. I know we've raised it in our

1 intervention papers that were filed last week. But the
2 significance of this, I don't think, can be understated.

3 THE COURT: All right. Thank you.

4 MR. GLICKMAN: Judge, can I be heard on that?

15:19:36 5 THE COURT: Okay.

6 MR. GLICKMAN: Rob Glickman.

7 I just want to reiterate. It's not only incredibly
8 important that South and AI are able to get onto their own
9 platforms. But if they don't do it in a cooperative way --
15:19:54 10 for example, if somehow South got on a platform in four
11 months and AI didn't, or vice versa, the cost of operating
12 this Pittsburgh platform does not go down if we lose a bunch
13 of students.

14 It's -- I mean, it might go down a little, but it
15:20:11 15 wouldn't go down nearly enough. So this platform transition
16 not only has to be done, it not only has to be done quickly,
17 but it has to be done cooperatively. Because if one entity
18 is more expeditious than the other, it could bring down the
19 other.

15:20:27 20 MAGISTRATE JUDGE PARKER: Mr. Glickman, just
21 to follow up, on the Art Institute side of the ledger, is
22 the only remaining operational Art Institute the one in
23 Las Vegas?

24 MR. GLICKMAN: No, Judge.

15:20:39 25 MAGISTRATE JUDGE PARKER: Can we find out, is

1 the one in Charleston open?

2 MS. WHITMER: Yes. The only one . . .

3 MR. GLICKMAN: I'm sorry. Are you asking if
4 the only AI receivership entity is Las Vegas?

15:20:51 5 MAGISTRATE JUDGE PARKER: On the AI side.

6 MR. GLICKMAN: In the receivership, yes. I
7 misunderstood your question.

8 MAGISTRATE JUDGE PARKER: All right. So all
9 of the AI receivership entities are closed, except for
10 Las Vegas.

11 MR. GLICKMAN: This is more Ms. Whitmer's area
12 than mine. So I'm going to defer to her.

13 MS. WHITMER: The law school and Las Vegas.

14 MAGISTRATE JUDGE PARKER: Law school is in
15 Argosy. I'm talking about the AI school.

16 MS. WHITMER: The AI schools, there are three
17 excluded campuses. They were Pittsburgh, which is closed,
18 Seattle, which is closed, and now, Las Vegas.

19 So, yes. The answer to your question is yes, Las
15:21:26 20 Vegas is --

21 MR. DOTTORE: Judge Parker, Mark Dottore.

22 There were several other AIs that were closed before
23 we got there, though.

24 MAGISTRATE JUDGE PARKER: Understood. We know
15:21:36 25 that now.

1 MS. WHITMER: Your Honor -- Your Honors, we
2 did file in our supplemental reports, a schedule -- the
3 financial report, a schedule of the campuses going forward.

4 So it envisions -- and Mr. Linscott is here, the chief
15:22:01 5 financial officer of the receiver is here, and can discuss
6 that schedule. And it shows that we can make the payments.
7 It shows that, you know, the payments -- the money will be
8 coming from, what I call, new South and new AI, which is
9 what South and AI looked like after the Studio deal.

15:22:24 10 So new South and new AI will make these payments, and
11 the data center can keep on going. And we have run numbers
12 that indicate that the expenses and the revenue, we've got
13 it right sized now.

14 We've made a number of reductions in force, and we're
15:22:46 15 entering into new contracts and so forth so that this place
16 can run at the right number.

17 And Mr. Linscott is here if you have any questions
18 about that.

19 MAGISTRATE JUDGE PARKER: I think the question
15:23:00 20 that Judge Polster has been trying to get at all day is,
21 whether there are current expenses for any still operating
22 schools that are not being paid, current operating expenses.
23 And we're being told that arrangements were being made to
24 cover landlord fees for any buildings where educational
15:23:19 25 activity is going on.

1 And we need to know whether people are going to come
2 back to the Court saying, I'm not being paid, or I'm not
3 being paid from this point forward. And it sounds, from
4 what you're representing to us, that the answer to that
15:23:33 5 question is, everyone, you know, current operating building
6 is going to be -- or have their charges paid.

7 MS. WHITMER: That is correct.

8 THE COURT: All right. Well, that has
9 been -- I had resolved that I was going to -- that going
15:23:47 10 forward, that was going to happen, or some major changes
11 would be made.

12 All right.

13 MR. BECK: Your Honor, may I be heard?

14 THE COURT: Yes.

15:23:59 15 MR. BECK: Your Honor, John Beck of Hogan
16 Lovells on behalf of the South Family Trust.

17 THE COURT: South Family Trust? What is that,
18 sir?

19 MR. BECK: Yes, Your Honor.

15:24:08 20 So the South University used to be owned by the South
21 family until 1993. And John South, who is in the courtroom
22 today, was its chancellor for 40 years.

23 I rise briefly -- I realize at the risk of adding more
24 complexity to the hearing today. But I want to rise briefly
15:24:24 25 to address the IT platform issue, and just put --

1 Your Honor, make you aware, and also make the receiver
2 aware, that the South Family Trust is willing -- obviously,
3 subject to working out the details -- to purchase the IT
4 platform, and enter into servicing agreements to help
15:24:40 5 transition South to a more viable place, if the receiver is
6 not able to do that.

7 So I just rise to make Your Honor aware of that.

8 Thank you.

9 THE COURT: Well, we've got Studio that's
15:24:54 10 willing -- that says they're doing it.

11 MR. ALTORELLI: Your Honor, that is a horrible
12 idea, and I just want to go on the record.

13 We've been through enough of this with people
14 intervening to trying to break up, you know, a very thorough
15:25:07 15 and thoughtfully crafted play.

16 They're not an owner. They're not an operator. They
17 are interested in buying the school. We're welcome to
18 having them do so. But right now, we need to get the two
19 schools that need these services provided by the receiver.
15:25:23 20 And if the receiver doesn't want to do it, the two schools,
21 with Studio's help, are willing to do it themselves. They
22 don't need another party.

23 THE COURT: I appreciate that offer. But
24 there is a -- there's a pending deal in place subject to
15:25:38 25 Court approval next Monday, to -- that Studio is going to be

1 doing that.

2 MR. ALTORELLI: Your Honor, that's not what it
3 says. It says if they cannot provide the services, then we
4 have the option to purchase the assets.

15:25:51 5 I do not believe, and I don't think the receiver or
6 any party that knows anything about the IT would think that
7 it would be a good idea to take the IT out of DCEH. The
8 cost will be enormous. And if you turn off those 500
9 servers and try to turn them back on, they may not work.

15:26:09 10 It's a horrible idea, and we need to really be
11 careful. This is -- we're stuck with a situation no one
12 likes. I don't like it either. But we've thought about
13 this very carefully for a long time. They have to stay in
14 place. We're prepared to pay them to stay in place.

15:26:26 15 THE COURT: All right.

16 MR. ALTORELLI: If they do that, and they
17 don't continue to attack our contracts and our services and
18 our ability to do so, I believe we can work this out and
19 keep two schools alive.

15:26:37 20 But we got to keep the rest of the world from coming
21 in and saying that they can do it better. Because if they
22 want to do it better, then write a check that -- and take us
23 out for the \$10 million that we've already spent, and fund
24 all these schools. And there is no one coming to do that,
15:26:50 25 and that is the problem. We've done it.

1 MR. GLICKMAN: Judge, Rob Glickman.

2 That provision that you're looking at was really kind
3 of a -- it was put in by Mr. Altorelli and myself almost as
4 in the case of last resort --

15:27:03 5 MR. ALTORELLI: It's just to make sure that if
6 you don't -- are not there, we can take it over. I don't
7 want it.

8 MR. DOTTORE: Your Honor, Mark -- Your Honors.
9 I'm sorry -- Mark Dottore.

15:27:11 10 THE COURT: Yes.

11 MR. DOTTORE: The system is extremely
12 antiquated, which is pretty funny when you figure it's only,
13 like, 12 years old.

14 So part of the problem is, these people that will move
15:27:21 15 off to these other systems, such as Studio and AI, will move
16 on to more efficient, smaller, faster systems than that is
17 provided. There's 55 people alone it takes just to run this
18 IT, which is way too many people.

19 MR. ALTORELLI: It was sized for a \$2 billion
15:27:37 20 revenue business, 170,000 students, 60, 70 campuses. Now,
21 it's running, 12, 18. It's just the wrong tool, but we
22 don't have a choice. I just implore people to stop fighting
23 about this stuff. Let us run it for four or five months and
24 be done.

15:27:55 25 THE COURT: All right. Well, that's what

1 we're going to do.

2 It will run -- I mean, again, my problem was
3 continuing this receivership while current operating
4 expenses weren't being paid. And that, to me, was not fair.
15:28:07 5 So we've ended that.

6 MR. ALTORELLI: Your Honor, there's a couple
7 of pieces along with that, and I just want to point them
8 out. Because if we're going to try to solve this, we should
9 try to solve it all.

15:28:17 10 We do need to work with the receiver, figure out what
11 the go-forward payroll is. And there's been some payroll
12 that hasn't been paid. And we need to really make sure we
13 have an understanding --

14 THE COURT: Payroll for what, sir?

15:28:25 15 MR. ALTORELLI: For DCEH. That is where
16 the -- resides all these people.

17 THE COURT: Well, the only payroll -- the only
18 payroll there is is this IT center, or whatever, right?

19 MR. GLICKMAN: It has well over 100 employees,
15:28:38 20 Judge.

21 THE COURT: Well, I thought you said it had 55
22 people?

23 MR. GLICKMAN: No. That's just to operate the
24 IT that we're talking about.

15:28:45 25 MR. DOTTORE: Your Honor, there's folks that

1 Mr. Altorelli and I are trying to sort out right now.
2 There's people that the Government -- that you have to have
3 in place for the Department of Education for compliance,
4 Treasury.

15:28:56 5 THE COURT: All right.

6 MR. DOTTORE: So there's about 100 people. 55
7 of them are in IT alone.

8 THE COURT: Well, again, that's what you've
9 got to figure out. All right? I mean, you know, the
15:29:09 10 people -- you need the people who you have to have to run
11 the program, and deal with the federal funds, which are
12 still coming in, because these schools are operating. And
13 they haven't been put on -- the DOE is sending funds for
14 these schools; is that right?

15:29:31 15 They're providing, you know, Government-guaranteed
16 loans for students, correct?

17 MR. DOTTORE: Yes, that would be correct.

18 THE COURT: All right. Well, then, obviously,
19 you need the people who know now to process that money and
15:29:40 20 make sure it's handled properly and we don't have a problem
21 like what we have, where --

22 I'm going to just -- I've got some questions for the
23 DOE people. Trying to determine how it happened that
24 stipend money didn't go to the students.

15:29:56 25 All right. So I think Judge Parker and I are

1 convinced that we need to keep this receivership in place
2 for four to six months so that either Studio will take over
3 this IT platform, or a new one will be built to support the
4 schools that -- I guess that Studio is going to be running.

15:30:29 5 MR. DOTTORE: Well, to be clear, Your Honor,
6 South wants to be on their own. Studio and AI want to be on
7 their own.

8 THE COURT: Well, whatever. Then South -- how
9 is South going to -- what platform is South going to have to
10 run their schools? Are they going to build their own?

11 MR. DOTTORE: I think their representative, I
12 believe, Your Honor -- Your Honors. I'm sorry -- stood up
13 and said that they are working on a platform as we speak.

14 THE COURT: All right. Well, then, they need
15 to have their own platform to run their schools.

16 MR. ALTORELLI: Your Honor, can I just -- so
17 look, it's very simple. They can do whatever they want.
18 There's a 60-day termination provision in our agreement.
19 Anytime South wants us out, they can send us notice and
15:31:04 20 we're out. So no one is locked to Studio. It's a voluntary
21 arrangement. Anybody who wants us out, just send us the
22 notice.

23 Until then, we tend to provide the services. Because
24 we don't believe either of them could get off, despite their
15:31:20 25 own wishes to the contrary, for at least four to six months.

1 THE COURT: All right.

2 MR. ROTHSCHILD: Your Honor, may I be heard?

3 THE COURT: Yes.

4 MR. ROTHSCHILD: Eric Rothschild on behalf of
15:31:30 5 the student intervenor, Dunagan plaintiffs.

6 I think it was -- my understanding from Your Honor is
7 that you're ready for the receivership to enter. Because
8 absent this platform issue, it really wasn't going to be
9 doing more good than harm.

15:31:45 10 This reason for having a receivership was not the
11 reason the receivership was asked for in the first place.
12 That doesn't make it unimportant, but it's not clear to me
13 what is different about the people employed by the receiver
14 versus the people at Studio, in terms of running an
15:32:01 15 operation with these 55 or 100 legacy employees; nor why
16 this same thing couldn't occur in bankruptcy as well as it
17 does for receivership.

18 And I guess there's a question here, then. If it is
19 decided that the receiver is going to continue to manage
15:32:17 20 this platform for four or six months or longer, does that
21 mean that everything else is going -- and all the other
22 issues that I know Your Honor is aware of, including the
23 stipends and the consent judgment, are they all then going
24 to be continued to be managed by a receiver.

15:32:33 25 And, obviously, we've articulated some objections to

1 that.

2 THE COURT: No. I'll probably have to put it
3 all to a bankruptcy court. I'm not going to -- you know,
4 it's not for Judge Parker and I to be dealing with this.

15:32:45 5 I've got a few questions -- I've got some Department
6 of Education people. I'd like someone to explain to me --

7 Well, before I forget, there was an emergency motion,
8 Mr. Dottore, that you filed for an order authorizing you to
9 enter into four articulation agreements with TCS Education
15:33:09 10 System. And these are four Argosy schools that have closed
11 down, right? They've closed?

12 MS. WHITMER: Yes.

13 THE COURT: They were in the receivership?

14 MS. WHITMER: So we have closed these Argosy
15:33:20 15 campuses. In doing that closure, what we did was, we tried
16 to wind them down in an orderly fashion, as orderly as could
17 be done when there was a total lack of funds.

18 So we arranged for students to attend what is called
19 transfer fares. Different schools put up tables and take
15:33:44 20 students on the campuses.

21 And then we are entering into partnership with other
22 parties who will take transfer students and who will
23 teach-out. TCS is a school in Chicago.

24 These are transfer agreements that we would like to
15:34:01 25 enter. We probably have another 15 different transfer

1 agreements to put on with the Court. Partly so that we can
2 notify people watching the docket what their various options
3 are as students that are caught in the closure of Argosy
4 University.

15:34:22 5 So TCS also has indicated that they will offer
6 teach-out to the -- it's not a Ph.D. It's a PSYD, a
7 psychology -- doctorate of clinical psychology -- so that
8 those students can complete -- the ones that are advanced
9 into their doctoral candidates can completed --

15:34:48 10 THE COURT: All right. What I'm trying -- I
11 mean, the motion says, Well, people have such and such time
12 to object --

13 MS. WHITMER: Yes.

14 THE COURT: -- until March -- the question is:
15:34:56 15 Aren't these things that have to be done immediately?

16 I mean, people need to know what school they're going
17 to go to.

18 MS. WHITMER: Yes.

19 THE COURT: And I'm not sure if -- I mean,
15:35:05 20 Judge Parker and I aren't telling anyone where to go to
21 school. I mean, Argosy shut down. These students have to
22 find somewhere else.

23 Do they need Court approval to go somewhere else?

24 MS. WHITMER: If the Court does not want us to
15:35:19 25 put these on the record, that's fine.

1 THE COURT: Well, I'm just trying to
2 understand, Ms. Whitmer.

3 MS. WHITMER: All we're seeking is the
4 approval of the Court to enter into these contracts. It's
15:35:29 5 really not an ordinary course item because, obviously, the
6 closure of a school is an extraordinary item. So we are
7 putting in front of the Court those various transfer and
8 articulation agreements for the Court's own review, so that
9 you know what we're doing in trying to transition students
15:35:50 10 to other alternatives and to other universities.

11 MR. DOTTORE: What they did, Your Honor --
12 Mark Dottore.

13 What they did, Your Honor, was, we went to transfer
14 partners that could match -- especially in this clinical
15:36:03 15 PSYD program, what it did was, these people are now moving
16 into internships, and they have things they need to do in
17 clinicals. So what we did was, we went to a partner and had
18 them match as many matching credits as we could.

19 You're correct, Your Honors, you can not tell a
15:36:20 20 student where to go to school. But if we made it as easy a
21 transition as possible. And almost the majority of them
22 have accepted these deals.

23 THE COURT: I think that's very good work of
24 the receiver.

15:36:32 25 I'm just saying, is this something that requires Court

1 approval? And if so -- if some other school says, Look, you
2 know, we're willing to take Argosy students, and, you know,
3 apply the -- you know, the remainder of tuition, and it's
4 clear that the money being transferred -- I mean, that may
15:36:51 5 require court approval because you're transferring -- are
6 you transferring money that went from the Department of
7 Education to Argosy for tuition to these other institutions?

8 MS. WHITMER: No.

9 MR. DOTTORE: No, Your Honor. They're going
15:37:07 10 on these other folks' Title IV money. They have their own
11 Title IV. They're going there. They're taking those
12 students --

13 THE COURT: Okay. Well, I'm just trying to
14 determine why you think it needs our approval.

15:37:18 15 MS. WHITMER: Your Honor, we -- I'm sorry.
16 I'm sorry -- we would be delighted not to put them of
17 record. I mean, it would save -- you know, it would save
18 drafting, filing.

19 THE COURT: Well, let me -- I've got
15:37:27 20 the -- this is out of my pay grade. I've got someone from
21 the Department of Education.

22 A. .

23 Is this something that requires Court approval?

24 I mean, if you tell me it does --

15:37:40 25 MR. FROLA: Your Honor, this is Mike Frola

1 from the Department of Education.

2 Generally speaking, the teach-out arrangements are --
3 from an institution that closes is -- that is approved by
4 the accrediting agency and the state agencies. And then, if
15:37:58 5 it requires that the student transfers, they become under
6 the new school, and they're responsible for that student.

7 THE COURT: Well, that's what I thought. It's
8 an educational matter, not a -- I mean, that's what it seems
9 to me. It's -- the accrediting agencies would handle it.

15:38:16 10 MR. DOTTORE: Your Honor, Mark Dottore.

11 From all the conversations we've had before we entered
12 into these agreements, we made sure that they had gone to
13 their accreditors and to the -- I think it's ACIS that does
14 the accreditation for this clinical psychology programs.

15:38:34 15 Mr. Ehrman has talked to the ABA in California, and
16 the ABA is -- I guess he could finish telling you what we've
17 done to make sure that that will work.

18 MR. EHRMAN: Your Honor, James Ehrman, one of
19 the counsel for the receiver.

15:38:51 20 THE COURT: Yes, Mr. Ehrman.

21 MR. EHRMAN: I was on the phone with the dean
22 of the law school, and the point person for the American Bar
23 Association who accredits the law school. And we were
24 working through the issues of how do we, you know, complete
15:39:07 25 the -- essentially, the semester for the law student.

1 As Ms. Awed said, ordinarily, it would take longer.
2 We're working with them to -- with the ABA to change the
3 requirements at the law school for number of hours in the
4 classroom so that these two pay cycles will be sufficient
15:39:26 5 for the 3Ls to graduate with full accreditation.

6 This is one of the things where it just goes on and
7 people have partial information and we do it. But
8 that's --

9 THE COURT: I'm just trying to save everyone a
15:39:40 10 lot of time and work in filings. And I don't think that you
11 need anyone's approval -- that the school needs anyone's
12 approval to work out articulation agreements with other
13 institutions.

14 MR. EHRMAN: And in that sense, Your Honor --
15:39:58 15 to finish up with the ABA, it's so that the Court knows so
16 that everyone is there.

17 In bankruptcy -- where I've spent most of my
18 life -- you do things out of what we call an abundance of
19 caution, because there are people in this room, there are
15:40:12 20 people on the phone who just object to everything because
21 it's in their pressure point to be able to do it.

22 THE COURT: Well, I'm trying to go cut that
23 off, too. All right?

24 MR. EHRMAN: Yes. Yes.

15:40:21 25 THE COURT: I'm a bottom line person,

1 Mr. Ehrman. And I don't think --

2 MR. EHRMAN: All right. And we don't want the
3 Court to be surprised, either, Your Honor.

4 THE COURT: All right. I'm determining that
15:40:29 5 Court approval is not needed for an articulation agreement.

6 MR. DOTTORE: Thank you, Your Honor.

7 THE COURT: So the receiver may -- so this
8 emergency motion, I'll just say it's denied as moot, because
9 Court approval is not needed for these articulation
15:40:44 10 agreements or any other. And I hope you're able to
11 accomplish them for as many students as possible.

12 MS. WHITMER: Wonderful. Thank you,
13 Your Honor.

14 We have 15 back at the office we can sign up today.

15:40:56 15 THE COURT: All right. Now, I have -- the
16 people from the Department of Education, can you explain to
17 me, when Title IV funding comes to a school, how does it
18 work? I mean, how does -- you've got money that covers
19 tuition, and you've got money that students are allowed a
15:41:22 20 stipend for living expenses.

21 I'd like someone to explain to me how the money flows
22 and what paperwork the school needs to provide and how the
23 money is supposed to be treated when it goes to the school.

24 MR. JACOBSON: Good afternoon, Your Honor.

15:41:37 25 This is Jonathan Jacobson. I'm a trial attorney at the

1 Department of Justice on behalf of the United States.

2 THE COURT: Right.

3 MR. JACOBSON: I'm here with a couple of other
4 folks, including the assistant director of the corporate
15:41:49 5 financial litigation section, Lloyd Randolph.

6 I'm also here with three representatives of the
7 Education Department, one of whom you've already heard from.

8 THE COURT: Right.

9 MR. JACOBSON: Donna Mangold, Steve Finley,
15:42:01 10 and Michael Frola.

11 THE COURT: I very much appreciate DOJ's
12 participation at the Court's request, and the Department of
13 Education personnel, on very short notice.

14 Basically, I'm asking these questions because I don't
15:42:16 15 know. And so I'd like to figure out -- I'm going to ask the
16 people who know because this is what you do.

17 MR. JACOBSON: Right, Your Honor.

18 And so Michael Frola, who is the director of the --

19 MR. FROLA: Multi-regional and foreign school
15:42:35 20 division.

21 MR. JACOBSON: -- of the Department of
22 Education is going to be able to answer at least some of the
23 questions.

24 THE COURT: And, I think, Mr. Frola, you're
15:42:43 25 the person who sent the February 27th letter to the

1 receiver --

2 MR. FROLA: Correct, Your Honor.

3 THE COURT: -- and the former officer
4 regarding the termination of funds for Argosy?

15:42:54 5 MR. FROLA: Correct, Your Honor.

6 THE COURT: Okay. I'm just saying that
7 because some people in the room might not be aware of that.

8 Okay. Can you just explain how the Title IV money
9 flow works?

15:43:06 10 MR. FROLA: Sure.

11 So Dream Center Education has been under what's been
12 called "heightened cash monitoring" since 2007 because of
13 the financial responsibility standards.

14 THE COURT: Right.

15:43:16 15 MR. FROLA: They haven't met their metrics.

16 So under that premise, since 2015, the method of
17 payment requires that they return -- if they draw money down
18 for a student, they have to -- before they draw that money
19 from the department, they have to pay that credit balance to
15:43:33 20 the student. And then require the money --

21 THE COURT: I'm sorry. Hold on it. Slow
22 down.

23 Before --

24 MR. FROLA: Sure.

15:43:37 25 THE COURT: Before they draw money -- they've

1 got to pay the student before they -- and then they've got
2 to ask you -- "you" being DOE -- for reimbursement?

3 MR. FROLA: Yes.

4 THE COURT: All right. And this is stipend
15:43:52 5 money, tuition money, or both?

6 MR. FROLA: It's both.

7 So, for example, if the school says a student is -- so
8 we borrowed and received grant money for \$10,000, and
9 tuition and fees were 8,000, that \$2,000 difference is a
15:44:10 10 stipend. And that money has to be reported on the student's
11 account card, and that 2,000 has to be paid to that student.
12 And then once that happens, then they can pull down that
13 money.

14 THE COURT: All right. So this is the -- this
15:44:24 15 is the stipend differential, the difference between the
16 gross amount of the borrowing and the tuition that goes into
17 the student's stipend account?

18 MR. FROLA: Yes. And that 2,000 is used for
19 living expenses, or whatever other needs the student needs
15:44:42 20 to survive on.

21 THE COURT: All right. So the school has to
22 certify. All right.

23 Student Polster, tuition is \$10,000 -- tuition is
24 \$10,000. Student's borrowing \$12,000. The school has to
15:45:01 25 certify that they've given me the \$2,000, and then they can

1 go to DOE and say, I've certified that I've given Student
2 Polster his \$2,000 stipend; now, give me the \$2,000, and
3 then you do that?

4 MR. FROLA: Yes, that's correct, Your Honor.

15:45:17 5 THE COURT: Okay.

6 MR. FROLA: And just to clarify, the schools
7 were operating under a Heightened Cash Monitoring 1, which
8 is a lesser oversight.

9 THE COURT: All right.

15:45:25 10 MR. FROLA: So they basically would
11 self-certify that they're doing that as part of the
12 regulations, and it requires administrative capability. And
13 then under that, we released approximately, just for Argosy
14 University, about 9.2 million on January 15th, and
15:45:41 15 2.8 million at the -- on January 29th.

16 So some portion of that fund, as we just discussed,
17 would have been for stipends.

18 So -- and then at the end of January, of course,
19 we -- when we heard that there was a lot of issues, we put
15:45:58 20 the schools on Heightened Cash Monitoring 2, and we notified
21 the school in a letter. And under that method, it's a
22 higher level of oversight.

23 And so what would happen there is not -- the students
24 would get paid still, first by the school, and then they
15:46:16 25 request reimbursement. But for that process, they would

1 have to -- we would do a final analysis of the student
2 account, and verify that not only was the money paid to the
3 student, but they did everything else, the students were
4 eligible. And that's a lot greater delay.

15:46:31 5 Since we've put the schools under Heightened Cash
6 Monitoring 2, they have not requested any funds from the
7 department.

8 And just to clarify, the certificate is not specific
9 as to the -- for the credit balances when they're under
15:46:50 10 Heightened Cash Monitoring 1.

11 MAGISTRATE JUDGE PARKER: Was it only the
12 Argosy schools placed on HCM2, or all the DCEH entities?

13 MR. FROLA: All the DCEH entities.

14 THE COURT: So that includes the AI
15:47:02 15 International schools and the Dream Center South schools?

16 MR. FROLA: No. AI International -- the South
17 University and the three campuses that went with them. The
18 AI schools have been operating under the Heightened Cash
19 Monitoring 1 method, and they have been meeting the
15:47:18 20 standards that we require of them and we have been paying on
21 them.

22 MAGISTRATE JUDGE PARKER: All right.

23 THE COURT: So Art and South have been okay,
24 but it was Argosy that wasn't?

15:47:34 25 MR. FROLA: From our -- yes, Your Honor.

1 From our understanding, the stipends -- and we
2 received -- you know, when we first started hearing that
3 students were not receiving their stipends towards the end
4 of January, we reached out to the receiver. He sent us the
15:47:50 5 documentation to show that there was approximately 16
6 million in unpaid stipends at that time.

7 THE COURT: And, Mr. Dottore, you determined
8 that at the end of January?

9 MR. DOTTORE: No, Your Honor. No, Your Honor.

15:48:16 10 THE COURT: All right. Well, all right.

11 Mr. Fiola [sic], when do you say you heard from
12 Mr. Dottore that there was \$16 million in unpaid stipends?

13 MR. FROLA: I received a thing on
14 February the 7th, the documentation. It not only provided
15:48:49 15 an overall chart, it actually gave us a student-by-student
16 listing.

17 THE COURT: All right.

18 So, Mr. Dottore, that was February 7th? I misspoke,
19 then.

15:48:58 20 MR. DOTTORE: Yes, Your Honor.

21 We also sent a letter to the department which we also
22 filed in one of our reports with the Court.

23 THE COURT: All right. And the \$16 million,
24 Mr. Dottore, in unpaid stipends, this was -- did you
15:49:14 25 determine for what period of time -- over what period of

1 time the money was received from DOE?

2 MR. DOTTORE: I'm going to let my CFO speak to
3 that. Because after we became alerted that the student
4 stipends weren't paid, before we sent the paperwork on, we
15:49:36 5 started to do an investigation. And he did the
6 investigation. That's Mr. Linscott.

7 THE COURT: All right.

8 MR. LINSOTT: Dave Linscott from Dottore
9 Companies.

15:49:46 10 THE COURT: Yes, Mr. Linscott.

11 MR. LINSOTT: When we arrived in Pittsburgh
12 after our appointment, we began to look at a cash flow
13 model, a business -- determining if the business was viable
14 to continue.

15:50:01 15 As we were putting together our cash flow models, we
16 started asking questions about, How does your revenue come
17 in? When does the Title IV money come in? Are we going to
18 have enough cash to make it through next week and the rest
19 of the semester?

15:50:20 20 And it was explained to us at that time, that there
21 were 28 to \$30 million of funding available at the
22 department.

23 Of that 28 to 30 million, there was 13 to 16 million
24 of stipends that would have to be paid out of those funds.

15:50:42 25 So at that point in time, we associated this large

1 stipend balance to future funding requests.

2 We later, a couple of weeks later, as we continued to
3 investigate this, because the receiver was asking me, The
4 department says these stipends were already paid. The
15:51:15 5 stipends were already paid. Get to the bottom of it.

6 As I began to dig into that, we found out that the 13
7 million of outstanding stipends related to periods November,
8 December, January, pre-receiver, and that these amounts had
9 been growing for the past several months.

15:51:40 10 THE COURT: So you're saying you found the \$13
11 million of stipends that the schools had represented to DOE
12 as having been paid to students, in fact, were not paid to
13 students?

14 MR. LINSKOTT: Yes.

15:52:06 15 THE COURT: Were you able to determine where
16 the money went?

17 MR. LINSKOTT: I have not tried to trace
18 dollars and perform a --

19 THE COURT: Well, did it appear to go into the
15:52:23 20 school's operations? Or did you find money going --

21 MR. LINSKOTT: It appeared to go --

22 THE COURT: -- you know, going, I'll say, out
23 to individuals or non-school entities?

24 MR. LINSKOTT: One of our challenges was, the
15:52:38 25 financial reporting accounting group at the schools had left

1 at the end of December. So there were no accounting people,
2 no financial reporting people in place when the receiver
3 arrived and was appointed.

4 Just -- and I haven't looked into this, but the money
15:53:03 5 went --

6 THE COURT: All right. So you couldn't tell?
7 You don't know where it went?

8 MR. LINSKOTT: That's correct.

9 THE COURT: All right. You just know it
15:53:14 10 was -- that the school had represented to DOE that they had
11 paid it to the -- they had paid the stipends to the student,
12 which they're required to do. The money came in from
13 DO -- it did come in then from DOE, but, in fact, the money
14 hadn't gone to the students?

15:53:33 15 MR. LINSKOTT: Correct.

16 THE COURT: All right. And it was November,
17 December, and the first part of January before the
18 receivership. All right.

19 All right. Mr. Dottore, you told the DOE on --
15:53:54 20 Mr. Frola on February 7th, that there were 16 million in
21 unpaid stipends.

22 Is that the 13 million plus the 2.8 that came in
23 January 29th? Or -- I'm just trying to get the discrepancy
24 between Mr. --

15:54:10 25 MR. DOTTORE: At the time, I believed it was

1 \$13 million. I was told -- or to the best of our ability to
2 inform this. You have to understand, Your Honor, we had to
3 go to people who were nonfinancial people to try and piece
4 this together.

15:54:25 5 MR. LINSKOTT: Your Honor, the 13 million did
6 not include the stipends due to the law school students. So
7 as we dug into this, the number kept growing because it
8 didn't include the law school, and that was another
9 3 million.

15:54:43 10 THE COURT: Okay. All right. So you found
11 another 3 million that was owed to law schools?

12 MR. GLICKMAN: Judge, Rob Glickman.

13 I don't mean to interrupt.

14 Dave Linscott is a CPA and a certified fraud examiner.
15:54:57 15 He's as diligent in this type of investigation as anyone
16 I've worked with.

17 I will tell you, this really is going to require a
18 deep-dive forensic accounting. It's --

19 THE COURT: Oh, I'm well aware of that. I --
15:55:10 20 and I'll need to decide what to do.

21 MR. GLICKMAN: I'm very nervous to try to tell
22 the Court one thing when we really haven't conducted a full
23 investigation.

24 THE COURT: No. I've got the information.

15:55:19 25 Mr. Linscott determined that representations had been

1 made that stipends had been paid. Those representations
2 were made to DOE. He determined that, in fact, the stipends
3 had not been paid. He found \$13 million, and then he found
4 another, roughly, \$3 million in stipends that should have
15:55:38 5 gone to law students. That's the 16 million that
6 Mr. Dottore reported.

7 All right. We have present -- we've got Mr. Burton,
8 who is a -- I don't know who we have in person who were
9 former officers, employees of DCEH.

15:56:13 10 Who do we have present?

11 MR. GLICKMAN: Judge, Rob Glickman, again.

12 Randy Barton is here.

13 Before we move on to the next topic, we should point
14 out that we are doing everything to preserve the
15:56:26 15 information, and working with the Office of the Inspector
16 General to make sure that a full investigation can move
17 forward.

18 THE COURT: All right. Thank you,
19 Mr. Glickman. I assumed that was the case.

15:56:34 20 All right. Mr. Barton, are you here?

21 MR. BARTON: Yes, Your Honors.

22 THE COURT: All right. Mr. Barton, what was
23 your position at -- you were a director?

24 MR. BARTON: I was chairman of the board, yes,
15:56:58 25 sir.

1 THE COURT: All right. And I looked at my
2 notes. You were on the phone call that I had when the
3 receiver filed their emergency motion. You were the -- what
4 I'll call the client representative of DCEH.

15:57:11 5 All right. So you were the last chairman of the
6 board.

7 All right. Did you have any of operating
8 responsibilities at Dream Center?

9 MR. BARTON: No, sir. I was involved some
15:57:26 10 with some of the fundraising and advancement work. That
11 would have been my only operational activities.

12 THE COURT: All right. Well, do you know who
13 at Dream Center was responsible for certifying to the
14 Department of Education that student stipends had been paid?

15:57:46 15 MR. BARTON: Our CFO was Chad Garret, and our
16 chief --

17 THE COURT: What is his name?

18 MR. BARTON: Chad Garret.

19 THE COURT: Chad Garret?

15:57:57 20 MR. BARTON: Yes.

21 THE COURT: All right.

22 MR. BARTON: And our chief operating officer
23 was John Crowley.

24 And then there would have been a number of others in
15:58:07 25 the financial aid areas who would have probably been doing

1 the actual certifications, but I would not know who those
2 would be.

3 THE COURT: All right. When did Mr. Garret
4 leave the employ of Dream Centers?

15:58:30 5 MR. BARTON: He resigned on January 14th.

6 THE COURT: And what about Mr. Crowley?

7 MR. BARTON: He resigned on January 11th.

8 THE COURT: All right.

9 MR. BARTON: Your Honors, I'd like to clarify
15:59:02 10 one point on the credit balances.

11 THE COURT: Yes.

12 MR. BARTON: I think there's a little bit of
13 misunderstanding, although I'm not an expert in this.

14 The credit balances would include things other than
15:59:13 15 the stipends. Credit balances could include scholarships.
16 Credit balances could include return of unearned tuition
17 because a student dropped a class, which would not the
18 equivalent of a stipend.

19 So the broad assumption that all of these are stipends
15:59:32 20 would -- although, it would be due on a student's account,
21 they're not all -- and there could be other sources of
22 scholarships and monies that would be posted on the student
23 account. So I just wanted to clarify that for the record.

24 THE COURT: Well, the scholarship money
15:59:52 25 wouldn't go to the student, would it?

1 MR. BARTON: Yes. It could, yes. It could go
2 to the student, yeah, for a credit on their account.

3 THE COURT: Well, but it would be a credit
4 against the tuition. I mean, if the tuition was \$10,000,
16:00:06 5 and a student received a \$5,000 scholarship, some of the
6 \$5,000 wouldn't go to the student, would it?

7 MR. BARTON: Some of students would have
8 received stipends that would have been scholarship-type
9 stipends, not just against tuition.

16:00:25 10 Again, I'm not an expert, but I -- as you -- I just
11 wanted to set the record straight that it's not all strictly
12 stipends involved in the credits on the student's account.

13 THE COURT: But the Department of Education
14 doesn't pay scholarships, do they?

16:00:41 15 MR. BARTON: No. It would have been monies
16 that was due on these student accounts for things other than
17 their federal Title IV draws for stipends.

18 THE COURT: Well, we're only concerned about
19 the school, your schools, Dream Center --

16:00:53 20 MR. BARTON: Right.

21 THE COURT: -- was required to certify to the
22 Department of Education that they had paid student stipends
23 for living expenses. And once they made that certification,
24 they received the money from the Department of Education.

16:01:10 25 And the accountants for Mr. Dottore have determined

1 that, roughly, \$16 million that Dream Centers certified when
2 you were chairman, those certifications were false.

3 MR. BARTON: I understand that, sir.

4 THE COURT: 15 million came in. So this has
16:01:33 5 nothing to do with the school wants to give a scholarship to
6 students. It has nothing to do with that.

7 The return of unearned tuition, again, that money
8 wouldn't go to a student, would it?

9 MR. BARTON: Some of it would be credited for
16:01:49 10 the student's ledger for their account, which would have
11 been included in that 16 million, is my understanding. But,
12 again --

13 MR. DOTTORE: Your Honor, I think what he's
14 trying to say is that you get a credit. It's not actual
16:01:58 15 cash. You get a credit, like a number, that would look like
16 a stipend, but it was really just credit from either -- what
17 I've learned, Your Honor, is some of these people are
18 employed.

19 These are mostly older students. They're not your
16:02:12 20 traditional right-out-of-high-school students, for the most
21 part. So they work for an employer -- and I forget the
22 exact name of the one particular -- we'll just use Chevron,
23 for example.

24 They've worked for Chevron, and Chevron would give a
16:02:27 25 credit for them, or pay part of their tuition.

1 THE COURT: So an employer gives -- say you
2 got a higher education program. Employees have that. They
3 say, All right. We'll pay 50 percent of your tuition. Or
4 find them out. Okay.

16:02:41 5 MR. DOTTORE: That's correct, Your Honor.

6 THE COURT: Okay. So that would go. But,
7 again, the Department of Education doesn't care about that.
8 It's not their money.

9 MR. DOTTORE: No.

16:02:49 10 THE COURT: All right. So that might --
11 obviously, that -- if it runs through the account, it would
12 show on the student's account.

13 I'm just worried about the stipends that are paid by
14 the Department of Education on funds that the student has
16:03:01 15 borrowed from the Department of Education.

16 MR. BARTON: Right.

17 THE COURT: So -- all right.

18 Mr. Barton, were you aware of any of this?

19 MR. BARTON: No, sir.

16:03:14 20 THE COURT: Have you asked -- have you tried
21 to find out how this happened under your watch?

22 Have you talked to anyone?

23 Have you asked anyone?

24 MR. BARTON: I've talked to our CFO, our
16:03:26 25 former CFO a little bit, and I got a little explanation that

1 there were a number of different types of funds that were
2 being returned to the student accounts. But I've not done
3 any independent investigation on it.

4 THE COURT: Well, did you ask Mr. Garret or
16:03:40 5 Mr. Crowley, you know, Why did you or someone certify to the
6 Department of Education that stipends had been paid when
7 they hadn't?

8 MR. BARTON: I've not talked with them about
9 that, sir.

16:03:52 10 THE COURT: Or have you asked them what
11 happened to the money, where it went?

12 MR. BARTON: If there were any deficits, the
13 money would have gone into the operation of the campuses.

14 MR. DOTTORE: Mr. Barton was not -- I'm sorry,
16:04:06 15 Your Honor.

16 Mr. Barton was not responsible for that particular
17 item. It was the chancellor of the school, Cynthia Baum,
18 and two other people in the -- what we call -- or the
19 compliance department. I forget the exact name. They were
16:04:18 20 the ones that saw it and signed off on it and sent them up
21 to the department for review.

22 MR. GLICKMAN: Judge, I'm sorry to interrupt,
23 again. Rob Glickman.

24 I'm not far enough along into this investigation to
16:04:32 25 say that that -- say who did what and who was at fault and

1 what anyone's mental state was at the time. I'm not there.
2 We haven't done discovery. Nobody has been under oath. I
3 know what it looks like. I just don't want to give the
4 Court the impression we've reached any type of final
16:04:52 5 determination.

6 THE COURT: No one has reached any final
7 determination. I'm just asking questions. And I -- and I'm
8 asking questions because at least for the last two months,
9 this has all been under my watch. And, candidly, there were
16:05:08 10 a whole lot of things that occurred shortly before the
11 receivership that the Court was not apprised of, and I would
12 have wanted to know. And there may be some things going on.
13 I certainly wasn't aware that all of these people were gone.
14 So I'm asking some questions.

16:05:24 15 All right. I guess, Mr. Barton, I accept the fact you
16 don't have any good answers, but that's the way it is. You
17 were the chairman.

18 I think we've got Allison Edgerton here? Maybe
19 Ms. Edgerton can share some light.

16:05:49 20 MS. EDGERTON: Yes, Your Honor.

21 THE COURT: Okay. Ms. Edgerton, you were
22 formerly employed in the -- you were the compliance officer?

23 MS. EDGERTON: No, sir. I oversaw student
24 accounting.

16:06:00 25 THE COURT: You oversaw student accounting.

1 Okay.

2 What was your formal position?

3 MS. EDGERTON: Assistant vice president of
4 student accounting.

16:06:07 5 THE COURT: Okay.

6 And when did you start at DCEH, and when did you
7 leave?

8 MS. EDGERTON: October of 2014 -- I'm sorry --
9 2012. I've been there for 14-and-a-half years.

16:06:25 10 THE COURT: Well, wait a minute. Let's go
11 back.

12 When did you leave?

13 MS. EDGERTON: I was officially terminated a
14 week ago, but came back in a capacity to help with teach-out
16:06:39 15 campuses. So I'm not overseeing student accounting
16 currently.

17 THE COURT: All right. So you were there up
18 until the beginning of March?

19 MS. EDGERTON: Correct.

16:06:47 20 THE COURT: All right. Okay.

21 And you were there for how long? Did you say 12
22 years? 14 years?

23 MS. EDGERTON: 14-and-a-half years.

24 THE COURT: Okay.

16:07:02 25 MS. EDGERTON: Not in that capacity.

1 But . . .

2 THE COURT: All right. When did you become
3 assistant VP of student accounting?

4 MS. EDGERTON: October of 2018.

16:07:17 5 THE COURT: All right. Can you shed some
6 light as to how things worked with the certification of
7 student stipends, say, starting from October of 2018?

8 So that October, November, December, January.

9 MS. EDGERTON: Can you ask the question again?
16:07:39 10 I didn't hear you.

11 THE COURT: Is it correct that starting in
12 October of 2018, DCEH was required to certify to the
13 Department of Education that a student stipend had been
14 paid, and then after the certification, the Department of
16:07:58 15 Education would send the money to DCEH?

16 MS. EDGERTON: Yes. What Mike Frola had said
17 on the phone was true, that we would self-certify through
18 our draw process, yes.

19 THE COURT: Okay. Well, starting in -- what
16:08:14 20 was your job -- starting in October of 2018, what was your
21 responsibility in certifying or overseeing those
22 certifications?

23 MS. EDGERTON: I oversaw the department that
24 performed the draw process through G5.

16:08:33 25 THE COURT: All right. Well, were the

1 certifications accurate?

2 MS. EDGERTON: To my knowledge. Again, I
3 oversaw that department. But, yes, I would imagine that
4 they were.

16:08:52 5 THE COURT: Well, you just heard that they
6 weren't.

7 Is this a surprise to you?

8 And, in fact --

9 MS. EDGERTON: Yes.

16:08:59 10 THE COURT: -- you were just -- you've been
11 working up until March 1st.

12 I mean, was it a surprise to you that --

13 MS. EDGERTON: Of course. I have no knowledge
14 into what Mr. Linscott is talking about.

16:09:10 15 THE COURT: Well, who were the people who were
16 doing it under your direction?

17 MS. EDGERTON: He's talking about stipends. I
18 mean, I can --

19 THE COURT: Well, you said you oversaw the
16:09:29 20 department that did the drawing and did the certification
21 and got the stipends. All right?

22 You didn't -- I gather you didn't do the
23 certifications yourself?

24 Someone did it under your oversight?

16:09:41 25 MS. EDGERTON: Correct. That's the draw team.

1 We also have a student stipend team that actually posts
2 stipends. So . . .

3 THE COURT: Well, ma'am, did you check to see
4 when those certifications were made, if the money had
16:09:56 5 actually been paid to the students?

6 Did you ever check?

7 MS. EDGERTON: Me, personally? No. No, I
8 didn't. I had faith that my department was doing what they
9 were instructed to do.

16:10:07 10 THE COURT: And what? Did you give them the
11 instructions that they were not to certify something to the
12 Department of Education unless -- until they had verified
13 that the money had been paid?

14 MS. EDGERTON: I don't think I understand your
16:10:24 15 question.

16 THE COURT: Well, why don't you explain to me
17 how you did your job, how you did your oversight. Let's
18 start that way.

19 MS. EDGERTON: So I -- we also had some
16:10:45 20 transition in our process, that we went from HCM1, which was
21 through the end of December, into a different process at the
22 beginning of January, where the department was asking us for
23 different requirements in different --

24 THE COURT: I understand.

16:11:03 25 But under -- even without HCM1, all right, did the

1 process work -- you -- your school certified the Department
2 of Education, We've paid the stipends, and then you got the
3 money, right?

4 That's how the process worked, starting in October,
16:11:24 5 correct?

6 MS. EDGERTON: Correct.

7 THE COURT: All right. Just explain to me
8 what you did on a day-to-day basis to determine if that was
9 happening, or that, in your belief, you believed it was
16:11:39 10 happening.

11 So what did you do to make sure it was happening?

12 MS. EDGERTON: I didn't follow up with my
13 department, you're right.

14 THE COURT: You didn't follow up at all?

16:11:56 15 Who told you that it was happening correctly?

16 MS. EDGERTON: My fiscal operations team did,
17 through our reporting process. And we follow policies and
18 procedures to maintain that our restricted cash, we follow
19 up by requesting reports from BankMobile.

16:12:16 20 We get daily reports from our third-party vendor,
21 which is BankMobile. We used our BankMobile reports to
22 determine that the stipend had been paid; not just paid to
23 the students' account, but had been issued to the students.

24 And that is the reporting process that we used to
16:12:38 25 ensure that the student stipend had been issued to the

1 student. And if it had been issued to the student, cleared
2 through their ACH account by check after it had been issued
3 to the student, then that's how we ensure that, after it had
4 been issued to the student, then that student's disbursement
16:12:58 5 was cleared to draw through G5.

6 Having confidence in that process, then, that's how
7 I had confidence that the process was being carried out
8 accurately.

9 THE COURT: Did you ever look at the
16:13:15 10 BankMobile third-party vendor reports?

11 MS. EDGERTON: From time to time, yes.

12 THE COURT: Did you ever compare a third-party
13 BankMobile report to the certifications that your people
14 were making to the DOE?

16:13:35 15 MS. EDGERTON: Again, like I said, they're
16 self-certifying. It's not an actual certification that they
17 make. When they request the draw through G5, it's a
18 self-certification.

19 THE COURT: Well, a self-certification means
16:13:51 20 that -- well, who signed the certification on behalf of DOE?

21 MS. EDGERTON: They don't sign the
22 certification. It's something that they click online.

23 THE COURT: You mean, you --

24 MS. EDGERTON: I'm sorry. I don't have
16:14:08 25 detailed knowledge of this. Is this something -- should

1 I --

2 THE COURT: Well, I don't know, ma'am.

3 MS. EDGERTON: I feel like I'm being
4 interrogated here.

16:14:13 5 THE COURT: Well, you don't have to answer any
6 questions. But it appears -- it appears that under your
7 watch, \$16 million of student stipend money is gone.

8 MS. EDGERTON: I don't believe that it was.

9 THE COURT: Oh, good.

16:14:31 10 Well, where do you think it went?

11 So you think that -- that the money is there?

12 It doesn't seem to be in the student stipend accounts,
13 and the receiver hasn't found it.

14 Where do you think it is?

16:14:48 15 MS. EDGERTON: We didn't request the stipends.

16 THE COURT: So you didn't -- so the Department
17 of Education just sent it for nothing?

18 DCEH didn't request the stipends?

19 MS. EDGERTON: They did not request the
16:15:08 20 stipends from the department. No, they did not.

21 THE COURT: Well, Mr. Frola, did you determine
22 why the Department of Education sent the money?

23 Didn't someone ask --

24 MR. FROLA: They self-certify, as we all
16:15:33 25 agree, that they draw down a certain amount of money. And

1 as we talked about earlier, some portion of that is
2 attributed to the student as a stipend, if they borrow above
3 the cost of their education for tuition.

4 That money, as far as we know, was not paid. And
16:15:50 5 that's what they attest to.

6 THE COURT: Well, ma'am, you've described this
7 self-certification. You click something online. So someone
8 in your department clicked or, you know, went through the
9 program and said, We have paid the stipends. Give us the
16:16:12 10 reimbursement.

11 And that's how the money came, right?

12 MS. EDGERTON: Correct. After the money comes
13 into the bank account, I don't have access to the bank
14 accounts. I do not know what happens to the money after it
16:16:25 15 comes into our bank accounts.

16 THE COURT: Right. That isn't the problem.
17 The problem is on the first end, that the money wasn't paid
18 to the students in the first place. You weren't allowed to
19 get the money from DOE until you had certified you had paid
16:16:39 20 it to the students.

21 I'm trying to find out who was in charge of looking at
22 the BankMobile reports to say, All right. I see that
23 students Polster and Parker got their stipends, click. We
24 got to get it back from DOE.

16:17:00 25 Who was supposed to look at the BankMobile reports to

1 verify that?

2 MS. EDGERTON: Yes, sir.

3 THE COURT: Well, who was supposed to do that?

4 MS. EDGERTON: My fiscal team.

16:17:15 5 THE COURT: All right. If they didn't do it,
6 do you have any idea why they didn't do it?

7 MS. EDGERTON: No, sir.

8 THE COURT: Am I correct that you did not
9 instruct them not to do it?

16:17:37 10 MS. EDGERTON: No, sir.

11 MR. GURBST: Your Honor, Richard Gurbst.

12 May I be heard?

13 THE COURT: Yes, Mr. Gurbst.

14 MR. GURBST: I know you don't mean for it to
16:17:46 15 be an interrogation, but it's sounding that way. I don't
16 think it's the time or place.

17 And it's certainly believed that a person should have
18 a lawyer, if that's where we're going here, Your Honor.

19 THE COURT: Well, I'm just -- that's fine.
16:17:58 20 I've asked my questions. And I'm -- I was particularly
21 asking them because Ms. Edgerton continued to work up until
22 last week, all right, so it surprised me.

23 I sort of -- somehow, I thought you had left with all
24 the others in early January.

16:18:25 25 My last question is, are any of these people, your

1 fiscal team, ma'am, are they still there at DCEH, or are
2 they all gone?

3 MS. EDGERTON: No, they're still there.

4 THE COURT: Okay. All right. I would
16:18:53 5 strongly suggest that -- oh, Mr. Linscott.

6 Mr. Linscott, I suggest that you talk to these
7 people -- they're still there -- and ask them what happened.
8 All right?

9 I mean, I -- I'm sort of surprised. I figured all
16:19:32 10 these people had gone, weren't there, but they're still
11 working, and they're still getting paid.

12 And, quite frankly, if -- they're working there and
13 getting paid under my supervision and Judge Parker's
14 supervision. And if you think that they did something wrong
16:19:56 15 before, I want to make sure they're not doing something
16 wrong now.

17 MR. LINSOTT: Yes, Your Honor.

18 THE COURT: Because that's on my watch. So
19 that's an order, to figure out what -- talk to them, and ask
16:20:08 20 them some poignant questions.

21 (Discussion held off the record.)

22 THE COURT: Well, good point.

23 Why don't you --

24 MAGISTRATE JUDGE PARKER: All right.

16:20:31 25 For Ms. Edgerton -- and you can answer from wherever

1 you went off to.

2 Ma'am, you've indicated that -- in response to
3 Judge Polster's questions, that there was, under your
4 management, something you described as a draw team, a
16:20:45 5 student stipend team, and then a fiscal ops team.

6 Are the draw and student stipend teams both subset of
7 fiscal ops?

8 MS. EDGERTON: No. The draw team and the
9 fiscal ops team are the same team.

16:20:57 10 MAGISTRATE JUDGE PARKER: All right. So it's
11 the same team.

12 And then student stipend, is that a separate group of
13 people?

14 MS. EDGERTON: It is.

16:21:00 15 MAGISTRATE JUDGE PARKER: Were they also under
16 your supervision?

17 MS. EDGERTON: Yes.

18 MAGISTRATE JUDGE PARKER: And the individuals
19 who are part of the student stipend team, to the best of
16:21:10 20 your knowledge, are they still employed?

21 MS. EDGERTON: Three of them.

22 MAGISTRATE JUDGE PARKER: Three of them. All
23 right.

24 Now, Ms. Whitmer, the other day, in the hearing we had
16:21:21 25 Friday, you described a process by which you and/or the

1 receiver's counsel had come to some conclusions about the
2 alteration of financial records.

3 Have you spoken to these individuals that Ms. Edgerton
4 has referred to?

16:21:34 5 MS. WHITMER: No, I had not.

6 MAGISTRATE JUDGE PARKER: Do you have the
7 names of those people?

8 Who is on the student stipend team, for example, or
9 the fiscal ops team?

16:21:45 10 MS. WHITMER: No, Your Honor. We have not
11 completed a detailed investigation.

12 MAGISTRATE JUDGE PARKER: All right. You were
13 kind enough to provide the Court with one sample of one
14 student's account that showed monies being credited, credits
16:21:59 15 being backed out, payments being applied, payments being
16 backed out and so forth.

17 That was an example, as I took it, of information that
18 you had uncovered of this so-called alteration of records,
19 correct?

16:22:14 20 MS. WHITMER: Yes. The student sent -- the
21 individual student -- the name was redacted -- the student
22 sent that to me. And I saw the credit account, and then the
23 bringing of that credit account balance to zero. And then
24 the voiding of that entry because the student had not -- I
16:22:37 25 thought because the student had not received a stipend.

1 MAGISTRATE JUDGE PARKER: The question I had
2 is, you presented to the Court as an example of what you had
3 reason to question concerning the handling of funds?

4 MS. WHITMER: I presented it to the Court
16:22:50 5 because after I had listened to what the Department of
6 Education had told me, and after I listened to what was said
7 in the conference of February 20th, it was a corroboration
8 of what I understood the situation to be.

9 MAGISTRATE JUDGE PARKER: All right.

16:23:09 10 So at least now we know from Ms. Edgerton, who the
11 categories of people are to speak to to get further
12 clarification of this handling of funds.

13 And most precisely, how it was that the -- whether it
14 was a self-certification or otherwise, how it was that the
16:23:26 15 DCEH represented to the United States Government that it was
16 entitled to receive Government funds. That's what we want
17 to know.

18 MS. WHITMER: Yes. I didn't understand the
19 self-certification piece. I thought they were actually
16:23:37 20 certifying by sending electronic documents. Because
21 I -- that's how I understood it. But . . .

22 MAGISTRATE JUDGE PARKER: All right. Thank
23 you.

24 Thank you, ma'am.

16:23:44 25 THE COURT: Thank you, ma'am.

1 All right. I think Judge Parker and I have asked the
2 questions we need to answer, and we have the information we
3 need.

4 There are a whole lot of folks here who have been
16:24:23 5 absorbing this. Some of you have spoken. Some of you
6 haven't. I certainly don't want everyone here to speak.

7 But if there's anyone here who thinks they have
8 something -- something important to contribute on what we've
9 asked, I would certainly entertain you to speak.

16:24:51 10 MR. STAVOLE: Your Honor, Bill Stavole on
11 behalf of 3601 Sunflower, LLC. We're one of the landlords
12 out in California.

13 I know you spoke earlier about the landlords who
14 weren't getting paid, and that that was going to end.

16:25:07 15 All of the schools have been closed, except two, that
16 were in the receivership. I just want to get clarification
17 that as of today, those premises are surrendered to the
18 landlords, and the stay is lifted as to those landlords so
19 that we can get our premises back.

16:25:20 20 MAGISTRATE JUDGE PARKER: Which school is
21 yours?

22 THE COURT: Which school is this, sir?

23 MR. STAVOLE: This is one out -- it's in
24 Orange County. It's an Argosy University school. Which --

16:25:28 25 THE COURT: Yeah. My only concern is, if

1 there are student records in there, sir --

2 MR. STAVOLE: Correct.

3 THE COURT: -- those need to be preserved.

4 MR. STAVOLE: Correct.

16:25:36 5 THE COURT: Because -- for obvious reasons.

6 Yeah, those properties have been surrendered.

7 MR. STAVOLE: Thank you, Your Honor.

8 THE COURT: I mean, Mr. Dottore, Mr. Glickman,

9 I mean, I want to make sure that student records are

16:25:47 10 preserved and transmitted to the receiver.

11 Is there any other important property there?

12 MR. GLICKMAN: Yeah. In some instances, for

13 example, as Mr. Dottore described, at the school where

14 nursing was being taught, there are assets that we're using

16:26:04 15 to gift to another university so they'll teach-out those

16 nursing students.

17 THE COURT: Well, you need to make

18 arrangements to immediately -- you know it's not fair.

19 These landlords haven't been paid.

16:26:16 20 Now, they're not going to be paid because their

21 schools aren't there, and they should be able to rent that

22 property to someone else.

23 MR. GLICKMAN: You've identified the most

24 important issue, however. It's the student records issue.

16:26:29 25 We need to be able to access the site so we can at least get

1 the students' records and preserve them.

2 THE COURT: Judge Parker is pointing out that
3 most of these records should be online, but maybe they
4 weren't. So they need to be preserved.

16:26:48 5 MS. WHITMER: Some of the records go back
6 years. So -- and they are very voluminous.

7 In some cases, the state regulators will take them,
8 and we don't have to, you know, secure them --

9 THE COURT: The point is, I don't want them
16:27:00 10 destroyed or lost.

11 MS. WHITMER: We'll shake a leg, Your Honor.

12 THE COURT: So I'd say to any landlord, you've
13 got to preserve student records, and in a safe place, until
14 the receiver gets them. And if they're there -- I guess
16:27:16 15 Mr. Dottore, Ms. Whitmer, you know where there are valuable
16 assets somewhere else, you can talk to those landlords and
17 get that done.

18 MR. DOTTORE: Right. Some of the assets, Your
19 Honor, aren't owned by the receivership. They're owned by
16:27:30 20 others. Some are owned by the South entities; some are
21 owned by the AI entities. But Mr. Altorelli and I have been
22 working together to give -- to either give the assets back.

23 But in the end, we're going to have to sort out who
24 owns what assets. But I will get them out of the building.

16:27:44 25 THE COURT: The main thing is to get them out

1 of the building so the landlord can rent the premises
2 somewhere else. They are already out a lot of money.

3 MR. DOTTORE: I've already hired a company --

4 THE COURT: And that bothers me because that
16:27:54 5 was on my watch. I'm making sure that that's over.

6 MR. GLICKMAN: Judge, we've entered into
7 several agreed orders with landlords that are on the docket
8 pending the Court approval that resolves the issue, at least
9 for those landlords. It gives us a certain amount of time
16:28:09 10 to come get the information.

11 THE COURT: Well, if you get those to me,
12 we'll -- and any agreements you have, Mr. Glickman, we'll
13 enter immediately. All right? We'll enter those
14 immediately.

16:28:17 15 MR. STAVOLE: And, Your Honor, on behalf of
16 Sunflower, there is no agreement in place just yet. There
17 is one being negotiated, but it is not in place yet.

18 And all we're asking is that if the Court indicates
19 that the premises are surrendered as of today, it allows the
16:28:30 20 landlord to regain their space.

21 THE COURT: All right. The premises are
22 surrendered.

23 But, again, if there's something of value, you can't
24 just -- you know, got to preserve that, sir.

16:28:38 25 MR. STAVOLE: I understand. All right.

1 Thank you, Your Honor.

2 THE COURT: Okay.

3 MR. ROTHSCHILD: Your Honor, Eric Rothschild
4 on behalf of the Dunagan plaintiffs.

16:28:47 5 I want to -- I'm still uncertain about what the scope
6 of the receivership will be going forward. I understand
7 there's this important issue of the platform, but it's not
8 clear to me whether other responsibilities that DCH has, and
9 now, the receiver has, will be undertaken by this receiver.

16:29:04 10 And there are two issues: One that we've spent a lot
11 of time on, the stipends, and another that we spent less
12 time on, the consent judgment, which I think are being
13 treated by the receiver as if they are part of the normal
14 collection of assets. But these are actually obligations
16:29:22 15 which are exigent for the students who are trying to
16 complete their education. So the stipends, we're very
17 familiar with.

18 The consent judgment involves an obligation that DCEH
19 has to students, like my clients, to remedy having been
16:29:39 20 misled about their education, that it was unaccredited, and
21 they need that remedy to complete their education, having
22 been cheated out of it.

23 And what we're hearing about, the stipends, which is
24 not --

16:29:56 25 THE COURT: Let's slow -- I mean, I

1 don't -- there isn't anything this receiver can do about
2 some misrepresentation, sir, that happened in the past about
3 accreditation.

4 MR. ROTHSCCHILD: Well, the receiver, or DCEH,
16:30:09 5 which the receiver now is, has an obligation under a consent
6 judgment with States Attorneys' Generals to remedy that.
7 And so that's -- that is an existing and immediate
8 obligation to these students, which is necessary for them to
9 continue their education.

16:30:25 10 And I do feel like --

11 THE COURT: I don't understand. I mean, these
12 schools are closed. There are only a handful that are open.

13 MR. ROTHSCCHILD: So, for example -- so, for
14 example, one -- and it wasn't done pursuant to the consent
16:30:42 15 judgment, but the DCEH promised those students who schools
16 were closed -- and this was actually -- they were closed
17 before the receivership -- DCEH promised that they would pay
18 them a tuition grant of \$5,000. And one of our clients is
19 actually waiting for that money.

16:30:58 20 That's not materially -- the stipend is a very unusual
21 issue, because it seems like funds were actually diverted.
22 But this is something that students were promised to
23 continue their education after the misrepresentation about
24 accreditation was exposed and the schools were closed.

16:31:18 25 And, again, with both that obligation and the stipend

1 obligation, what I'm hearing from the receiver is, you know,
2 We will get to that in good time.

3 And there's actually -- we've heard things from the
4 receiver that -- about what they've learned about the
16:31:36 5 stipend issue, which I feel like are not being run to
6 ground.

7 We heard in the last hearing that on February 20th,
8 they talked to employees who were involved in the altering
9 of the students' accounts, and they explained what happened.
16:31:50 10 And yet, we have not heard here, in this Court, what
11 happened or who directed it.

12 And I realize we can get to all of that in good time,
13 but these are issues that for students affected, are
14 exigent. The money that was diverted from them is money
16:32:10 15 they need to continue --

16 THE COURT: Sir, that's apparent. And it's
17 not for me to trace where it went.

18 I'm assuming it went into operations. And, you know,
19 there was obviously far more money -- the burn rate for
16:32:25 20 these operations was far more than they were bringing in.
21 And that's why we either needed a receiver or bankruptcy.

22 MR. ROTHSCHILD: Well, Your Honor that's
23 what's been stated, are operational expenses. And that may
24 be true. But this money should have come into segregated,
16:32:42 25 identified accounts.

1 THE COURT: Well, it didn't. All right? We
2 know that. It didn't.

3 So I don't --

4 MR. ROTHSCHILD: Well, I don't think that's
16:32:46 5 been represented, Your Honor, respectfully, that that money
6 should have been --

7 THE COURT: It would still be there, and the
8 receiver would be able to pay the -- you know, restore the
9 stipend.

16:32:56 10 MR. ROTHSCHILD: Or the money came into there
11 and then went out. And if there are these segregated
12 accounts, then tracing where that money went is actually not
13 that difficult.

14 So either the answer is, there were no segregated
16:33:09 15 accounts, and we should know that or --

16 THE COURT: All right. Sir, I don't really
17 understand the import of what you're trying to ask me to do.

18 MR. ROTHSCHILD: I think the issue, Your
19 Honors, is whether this receiver is going to continue with
16:33:22 20 responsibility over these issues.

21 THE COURT: Well, I don't even know what these
22 issues for the consent judgments are. I wasn't apprised of
23 any of this when the receivership was created. And, quite
24 frankly, there isn't a lot I can do about it, that I can
16:33:36 25 see.

1 So what specifically are you suggesting that I
2 direct -- or Judge Parker and I direct the receiver to do?

3 MR. ROTHSCCHILD: Your Honor, what I believe
4 I've heard today is that the receivership was going to
16:33:45 5 continue for a reason that wasn't even presented to the
6 Court when it started, which is, this understandably
7 important computer platform.

8 And I'm uncomfortable, given what has transpired --
9 this consent judgment being a good example -- that the
16:34:00 10 receiver had agreed with the states to let any court that he
11 applied to for receivership to know about, but didn't. So
12 we had to do that, and now the settlement administrator for
13 the consent judgment has come in.

14 So these are the types of issues that are right now
16:34:17 15 under the stewardship of the receiver that we don't feel
16 like the receiver is attending to appropriately.

17 THE COURT: All right. Sir, with all due
18 respect, it's just a lot of words.

19 Can you succinctly say what it is you want me to
16:34:29 20 direct the receiver to do?

21 If I can, I'll consider it. If you can't, then let it
22 go.

23 MR. ROTHSCCHILD: Your Honor, one of the
24 issues -- the issue that brought us together today was
16:34:38 25 whether the receiver should continue to administer --

1 THE COURT: I've got no choice. I've got to
2 continue the receiver. We understand why, because if I
3 don't, then another 15,000 students are going to be in a
4 huge mess, and who knows how many millions of dollars of
16:34:52 5 public funds will be lost.

6 MR. ROTHSCHILD: Well, I will sit down after
7 this.

8 But I'm not sure why this receiver, with his
9 complement of colleagues, is different or better than
16:35:02 10 Studio, who has agreed they would take it over for 2
11 million, or a bankruptcy trustee.

12 I'm not understanding the reason why that is going to
13 keep this receiver in office for six months, while these
14 other issues are, you know, we feel, not being appropriately
16:35:19 15 addressed.

16 MAGISTRATE JUDGE PARKER: All right.
17 Mr. Rothschild, you appeared in my Court on Friday. You and
18 I spoke at that point in time. You made it clear that you
19 represent students who are at a school that closed in
16:35:31 20 December, a pre-receivership. I understand that you have
21 criticisms of the receiver.

22 You have indicated to the Court that from your
23 perspective, the receiver has ongoing objections on the part
24 of DCEH to comply with these various state consent
16:35:48 25 judgments.

1 As was pointed out in Court Friday, when you were
2 there, this receiver is only now compiling information on
3 exactly what those obligations are.

4 Mr. Ehrman said to me Friday that he's digging into
16:36:02 5 that topic. It's a complicated topic. There are
6 representatives, Mr. Selby and Mr. Keating, here on behalf
7 of one of the State Attorney General cases. Perhaps, they
8 could comment.

9 But beyond saying in a generic fashion, that as long
16:36:18 10 as the receiver is in command of DCEH, the receiver's
11 obligated to comply with consent judgments, I don't know
12 what more we can say to you.

13 You've indicated that one of your clients -- one of
14 your four clients believes he's entitled to \$5,000 under a
16:36:34 15 corrective action plan that you believe is the obligation of
16 the receiver.

17 So our advice to you at this point is not to ask for
18 an order of the Court, but to interact with the receiver to
19 see about getting those funds, if funds are available.

16:36:48 20 But beyond that, you've got a noncertified class of
21 people that you seek to represent and no other claims. So I
22 question whether your clients have standing to even ask the
23 Court to begin to enter those kinds of orders.

24 So I appreciate you being here. You're obviously an
16:37:04 25 articulate representative for your clients. You're doing a

1 good job doing so. But it's pretty clear where the
2 direction of this hearing is going.

3 And I should clarify that in the very motion for the
4 appointment of a receiver, it was represented to the Court
16:37:16 5 that one of the problems the receiver had was dealing with
6 this combined administration of all these entities.

7 And when the Studio lawsuit got filed, it was further
8 represented to the Court that some of the difficulty in
9 dealing with Studio was the fact that there's this combined
16:37:34 10 administration of these universities, the very thing we've
11 been talking about today. That's the only reason this
12 receivership is continuing on past today.

13 So thanks for being here.

14 MR. ROTHSCCHILD: Thank you, Your Honor.

16:37:49 15 MAGISTRATE JUDGE PARKER: Is there someone for
16 Intervenor Tom Perrelli that wishes to address the Court?

17 MR. SELBY: Yes, Your Honor. Ric Selby.

18 Your Honor, Ric Selby.

19 MAGISTRATE JUDGE PARKER: If you could, just
16:38:08 20 indicate what Perrelli's position is. And there have been
21 questions asked to the Court regarding this ongoing
22 obligation of the receiver on behalf of DCEH to comply with
23 terms of consent judgments.

24 We've not been furnished with consent judgments. We
16:38:24 25 don't know the detail of those obligations.

1 MR. SELBY: Your Honor, we filed a motion to
2 intervene several weeks ago, and the consent judgment is
3 attached to that as an exhibit.

4 MAGISTRATE JUDGE PARKER: All right. For one
16:38:36 5 of the states?

6 MR. SELBY: No. For all of them.

7 So there was an action brought in Kentucky on behalf
8 of 40 different Attorney Generals dealing with the conduct
9 of Dream Center's predecessor. That resulted in a
16:38:52 10 settlement on a consent judgment. Tom Perrelli was the
11 settlement administrator of that.

12 Under that settlement, there were ongoing obligations
13 regarding whoever was running and operating these schools to
14 not engage in fraudulent or misleading conduct with the
16:39:13 15 students. That was the subject of that original action.

16 As it relates to this particular matter, there are a
17 number of reasons why we at least wanted to have a seat at
18 the table.

19 With respect to schools that were going to continue to
16:39:32 20 operate, obviously, you know, they need to be under the same
21 rules as they were before this.

22 But as schools are being sold, and as they're being
23 shut down, their obligations under the consent judgment with
24 respect to schools that are sold, there are provisions that
16:39:51 25 under certain circumstances, predecessors are going to be

1 bound by this consent judgment.

2 And likewise, when schools are closed, there are
3 communications that are made to the students. Under
4 Department of Education rules, when a school closes, there
16:40:12 5 are opportunities for students to apply to have their
6 student loans forgiven. And there's a program to do that.
7 Part of if these schools are closed, that that's being
8 communicated.

9 I know Brian Hauck, who we've been dealing with, has
16:40:30 10 been dealing with the receiver. Our understanding is that
11 those communications are being made in the way -- and we
12 don't have any current concerns with what is being
13 communicated to those students.

14 However, there are -- prior to the receivership being
16:40:46 15 put into place, there were two schools, the Art Institute of
16 Illinois, and the Art Institute of Colorado, that had
17 accreditation issues, and there were -- the students were
18 not -- it was not communicated to the students that the
19 accreditation has ended.

16:41:08 20 As a result of that, there was a procedure under the
21 settlement -- the consent judgment with DCEH, the entity in
22 receivership, that when there were violations, that you
23 would work out a remedy for that violation.

24 There were ongoing communications. The last
16:41:29 25 communication from DCEH before the receiver was put into

1 place was that they were going to refund 3.07 million, I
2 believe it was, to those students as a result of those
3 accreditations. And that's an obligation of DCEH.

4 We've been communicating with the receiver regarding
16:41:48 5 that. Obviously, we have an interest that those students
6 are paid. You know, we would argue that to the extent this
7 money came in through some type of fraudulent means, that it
8 should be held in constructive trust for these students.

9 But, in any event, how that gets paid out is probably
16:42:10 10 a preliminary matter. But we do -- we've asserted that
11 interest.

12 And we also -- the stipend interest, to the extent
13 that communications were paid to student, that comes under
14 our purview.

16:42:22 15 THE COURT: All right. Thank you.

16 Look, it should be abundantly clear to everyone that
17 there will be a voluntary or involuntary bankruptcy when
18 this receivership ends. And so a lot of these issues are
19 going to have to be -- they'll be claimed in the bankruptcy
16:42:40 20 case.

21 MR. SELBY: We understand. We just wanted --

22 THE COURT: But I think -- look, I want to
23 make sure if there are any ongoing obligations in a consent
24 decree that apply to an ongoing university, that needs to be
16:42:55 25 complied with, and the receiver will do it.

1 If this is dealing with something that happened in the
2 past, or the school is closed, there isn't much that can be
3 done at this point.

4 MR. SELBY: We understand that. And we've had
16:43:06 5 those communications with the receiver.

6 I think the indications we've gotten from everybody is
7 that they are communicating the appropriate things to those
8 successor schools and to the students. And, obviously, if
9 we hear differently -- but all of that is in our motion to
16:43:20 10 intervene, which I don't believe has been ruled on yet.

11 So I bring that to your attention.

12 THE COURT: Okay.

13 MR. SELBY: All right. Thank you, Your Honor.

14 THE COURT: All right. Anyone else?

16:43:38 15 MR. ALTORELLI: Yes, Your Honor.

16 Since it seems like we were the one that maybe
17 persuaded you to keep the receivership, I just want to point
18 out a couple of things that would helpful to you in that
19 process.

16:43:53 20 We had three separate deals that haven't been honored
21 since we began. We had a deal to acquire the AI institutes.
22 That didn't happen. We then, at the behest of the
23 parties --

24 THE COURT: You got a settlement now. And I
16:44:09 25 want to address --

1 MR. ALTORELLI: I just want to point out --

2 THE COURT: I mean, I will address that. The
3 hearing is scheduled for a week from today.

4 MR. ALTORELLI: Yes.

16:44:17 5 I just want to point out, though, none of the
6 agreements that we've ever signed has been honored. So if
7 the settlement is not honored, we'll be back here, right,
8 and you'll, then, probably want to do a Chapter 11.

9 So I just want to be clear that we're ready, willing,
16:44:28 10 and able, but we can't control the other parties. So I was
11 just saying that --

12 THE COURT: The agreement, it's with the
13 receiver. As long as the receiver is there, it's going to
14 be complied with.

16:44:38 15 MR. ALTORELLI: Okay.

16 THE COURT: That's how --

17 MR. ALTORELLI: We'll reserve on that, then.
18 I hope so.

19 THE COURT: Well, I mean, that's the whole
16:44:43 20 point of this. And there have been a couple of objections
21 filed. The receiver will be responding to that. And I'll
22 have a hearing next Monday, and we'll rule on it.

23 MR. ALTORELLI: Fair enough.

24 MS. AWED: Your Honor, student intervenor. I
16:45:10 25 actually want to ask Michael Frola a question.

1 THE COURT: Okay.

2 MS. AWED: In early January, the lawsuit --

3 MR. JACOBSON: I'm sorry. This is

4 Jonathan Jacobson. I'm Mr. Frola's attorney in this

16:45:26 5 hearing, and I'm speaking on behalf of the United States.

6 Mr. Flora has been produced voluntarily here to -- you

7 know, to answer limited questions of the Court. To the

8 extent that an intervenor or a party to the litigation would

9 like to seek testimony from Mr. Flora as a nonparty to the

16:45:44 10 litigation, you would have to go through our Touhy

11 regulations.

12 THE COURT: Good luck with that. You'll

13 get a -- that's an editorial comment.

14 You'll get a good legal education to add to the good

16:45:58 15 one you're now getting.

16 MS. AWED: Thank you.

17 THE COURT: All right?

18 MS. AWED: And I wanted to clarify about the

19 two pay cycles.

16:46:03 20 When do they start and end? When does the month --

21 THE COURT: Good question. I thought, ma'am,

22 that they're -- good point.

23 When -- the two pay cycles, when do they start?

24 MR. DOTTORE: One is coming up, and then

16:46:16 25 there's one two weeks from that.

1 MS. AWED: Can I get dates, please, because I
2 don't --

3 THE COURT: Yeah.

4 MR. LINSKOTT: The next payday is this coming
16:46:25 5 Friday.

6 THE COURT: So it covers this Friday, and then
7 two weeks from this Friday?

8 Or is that -- that's only two weeks and three days.
9 That's a short four weeks. So --

16:46:44 10 MR. LINSKOTT: So the payroll that's being
11 paid Friday for a pay period that ended last Friday. So two
12 pay cycles would be this Friday, and then two weeks from
13 this Friday.

14 MS. AWED: But the pay cycles are two weeks'
16:47:00 15 long at our school.

16 THE COURT: Well, that's what we've got. So
17 we got Friday, the 15th, that's this Friday, and Friday,
18 March 29th.

19 Are those the two pay cycles?

16:47:13 20 Well, Studio is going to be running the school. So
21 they -- you know, they're going to be running it. So it's
22 been represented, ma'am, that that will keep the schools
23 open through the end of the March, and that's sufficient for
24 everyone to graduate and get their credits.

16:47:30 25 MR. DOTTORE: Actually, Your Honor, if Studio

1 takes it, it would run -- continue --

2 THE COURT: Well, understood, Mr. Dottore.

3 But in case they don't, I mean, the idea, and what was
4 important to me was, to make sure that these law students
16:47:44 5 get their credits and -- at least for this year.

6 I know, you know --

7 MR. GLICKMAN: Judge, if Mr. Altorelli will
8 confirm, we'll put a motion on the record, along with an
9 exhibit, asset purchase agreement, to convey the law school
16:47:59 10 to Studio or its designee during the period of time these
11 pay cycles are going on.

12 THE COURT: All right. That will be very
13 good. We'll grant it. No one is going to object to that.

14 MS. AWED: I just have one last question
16:48:14 15 regarding the student stipends -- or, actually, a comment.

16 THE COURT: Yes.

17 MS. AWED: You were saying that we would just
18 have to get our student stipends in the bankruptcy court?

19 Like, there's no chance of us getting them anymore?

16:48:27 20 We just have to wait for everything to --

21 THE COURT: Ma'am, I don't -- the receiver
22 doesn't know what happened to the money. All right?

23 They may be able to find out by questioning some of
24 the people we've suggested they question.

16:48:42 25 MS. AWED: Okay.

1 THE COURT: If they have the money, they have
2 the money. But the money does not seem to be there. So
3 maybe you got to pursue it in bankruptcy.

4 MS. AWED: I thought that Ms. Whitmer said at
16:48:57 5 the Friday hearing, that there was 1.5 million of student
6 stipends available. I'm not sure if I remember correctly.

7 THE COURT: I think she said there's
8 1.5 million in the receiver's accounts.

9 Ms. Whitmer, Judge Parker asked if she knew whether
16:49:10 10 any of that was student stipend money, and I think she said
11 not. If it turns out that any of the money that the
12 receiver has is student stipend money, that money will go to
13 the students.

14 MAGISTRATE JUDGE PARKER: Well, they have to
16:49:26 15 make a decision on which of the students get --

16 THE COURT: But they have to determine which
17 of the students. Or maybe do it on a pro rata basis.

18 MS. AWED: Well, there's not many left now.

19 MS. WHITMER: Your Honor, I --

16:49:35 20 THE COURT: So I don't know the answer to any
21 of that.

22 MS. WHITMER: With regard to that million and
23 a half, I believe that it is subject to equitable tracing so
24 that -- and the rules of that are -- you know, they're in
16:49:49 25 the law.

1 One of the things that's interesting about the student
2 stipend money is that the department advanced it not as
3 stupid stipend money, but as a reimbursement. So that, you
4 know, I don't believe --

16:50:03 5 THE COURT: Yeah. It was a reimbursement to
6 the school.

7 MS. WHITMER: Correct.

8 THE COURT: A representation that the school
9 had paid the money to the students.

16:50:11 10 MS. WHITMER: Correct.

11 THE COURT: So it's not technically student
12 stipend money. It was designed to go into the operating
13 account to reimburse the school for what it represented had
14 been paid to the students.

16:50:22 15 So legally, I don't know what -- so --

16 MS. WHITMER: So that million and a half is
17 frozen, and -- until we determine who it should be paid to.

18 THE COURT: Right.

19 It's -- that's the correct answer, and that's the
16:50:37 20 correct response, ma'am, to your question.

21 MS. AWED: Okay. Thank you.

22 THE COURT: It's frozen --

23 MS. AWED: Thank you, Your Honor.

24 THE COURT: -- upon further order of the
16:50:44 25 Court.

1 Okay. Well, again, I appreciate everyone appearing
2 today. We're going to continue the receivership. We made
3 certain changes to make sure that no premises will be
4 occupied without payment to the landlord. And so we've got
16:51:06 5 a -- up to 15 days for Art Institute --

6 MS. WHITMER: Las Vegas.

7 THE COURT: -- Las Vegas. Right. LV. Thank
8 you.

9 Art Institute Las Vegas. To have some resolution of
16:51:28 10 Art Institute Las Vegas, and the Court will be advised. And
11 they'll be paying, roughly, the \$3,500-a-day rent. And
12 we'll get further advice on that.

13 We have worked things out -- law school is worked out.
14 And --

16:51:58 15 MS. AWED: Your Honor, I'm sorry. I actually
16 have one more question.

17 THE COURT: Well, let me complete this.

18 Well, we've determined that South University is paying
19 the rent for -- is it Novi, Michigan, and Cleveland. So
16:52:21 20 that's taken care of.

21 MR. GLICKMAN: No. Judge, South University is
22 conducting the teach-outs at different facilities. So those
23 are --

24 THE COURT: All right. So no rent is being
16:52:33 25 paid, right. So no rent is being paid, and those premises

1 are vacated. So the only premises -- the only premises
2 that's being occupied are Las Vegas, and we're taking care
3 of that with daily rent, and the law school, and that's
4 being covered.

16:52:48 5 And we're going to keep the receivership in place, not
6 indefinitely, but for a limited duration, and I'm going to
7 say not to exceed six months, for some transition of the
8 platform. Either a new one, or someone taking it over so
9 that those schools can continue to operate, and the students
16:53:16 10 aren't comprised.

11 Right. And I would like the -- I would like the
12 receiver to give the -- file with the Court a plan, detailed
13 plan for that transition, just so we know what's going to
14 happen over that period, and who is going to do what.

16:53:40 15 And, of course, we have the hearing next Monday, at
16 1:30, on the Studio -- motion to approve the Studio
17 agreement.

18 MR. DOTTORE: Is that with you, Your Honor, or
19 Judge Parker?

16:53:58 20 THE COURT: I think both of us. We make a
21 pretty good team. Judge Parker reminds me of all the things
22 that I've forgotten. So I need that.

23 Okay. Thank you for everyone's appearance, and the
24 hearing is adjourned.

16:54:15 25 Well, one short question.

1 MS. AWED: Marina Awed, student intervenor.

2 You said that they have to pay the landlords while
3 those schools continue to operate.

4 What about when the school has, like, backpay?

16:54:34 5 MS. WHITMER: I'm sorry. What about --

6 MS. AWED: If the school --

7 THE COURT: I'm not giving any orders with
8 back rent, ma'am. I can't worry about the past.

9 MS. AWED: Okay. I was just wondering.

16:54:43 10 Thank you.

11 THE COURT: My obligation is to make sure that
12 no landlord continues to provide facilities without getting
13 paid.

14 MS. AWED: Okay. Thank you, Your Honor.

16:54:51 15 THE COURT: Okay. We're adjourned.

16 Thank you.

17 - - -

18 (Proceedings adjourned at 4:54 p.m.)

19 **C E R T I F I C A T E**

20

21 I certify that the foregoing is a correct transcript
22 from the record of proceedings in the above-entitled matter.

23

24 /s/ Donnalee Cotone 14th of March, 2019
DONNALEE COTONE, RMR, CRR, CRC DATE
25 Realtime Systems Administrator